Norcen

Annual Report 1985

Norcen achieved record performance and made important investments in 1985.

Norcen Energy Resources Limited
Norcen Energy Resources Limited is engaged in the exploration for and production of oil and natural gas in Canada, including Alberta, British Columbia, Saskatchewan, the Beaufort Sea, offshore East Coast and in the United States and Australia. Through subsidiaries and affiliates, Norcen also participates in significant iron ore operations in Labrador, in the transmission and distribution of natural gas primarily in Alberta and in the distribution of propane in Western Canada and Ontario.

Cover:
Sunrise over the Grey Wolf drilling barge at South Grand Bois, Louisiana.

Norcen
Energy Resources Limited

715-5th Avenue S.W., Calgary, Alberta T2P 2X7

William T. Kilbourne
Vice-President, Legal and Secretary
(403) 231-0120

March 22, 1986

Dear Shareholder:

It is with pleasure that you are invited to attend the Company's Annual and Special Meeting to be held on April 18, 1986 in Calgary. The meeting will be held at the Calgary Convention Centre and is scheduled to begin at 10:00 a.m. local time. Enclosed you will find material pertaining to the meeting.

As you may be aware, a significant transfer of shares from Hollinger Inc. to Hees International Corporation occurred in March of this year. This change in control is reflected in the nominees for election to Norcen's Board of Directors. Norcen has prospered during its affiliation with Hollinger and anticipates a continued strong performance within the expanded relationship.

We look forward to seeing you at the Annual and Special Meeting. Although your shares are not entitled to a vote at the meeting, you are cordially invited to attend, observe, ask questions and generally participate in the proceedings.

Yours very truly,

William T. Kilbourne

William T. Kilbourne

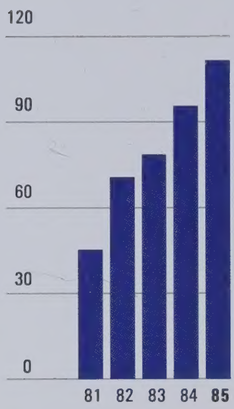
NVOS:wtk

Business decisions in 1985 demonstrated Norcen's firm commitment to oil and gas exploration and development.

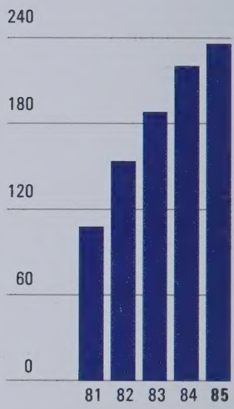
Highlights

Income applicable to ordinary shares
(millions of dollars)

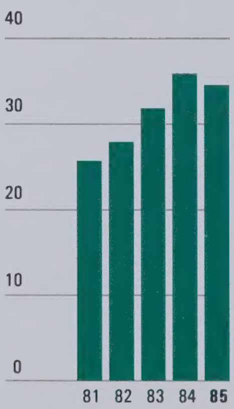
In 1985, Norcen again achieved record financial performance.



Funds from operations
(millions of dollars)

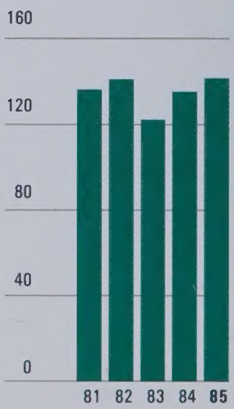


Crude oil and gas liquids production
(thousands of barrels per day)



Natural gas production
(millions of cubic feet per day)

Gas production was up 5.1 per cent from 1984.



Financial	**1985**	1984	% change
	(millions of dollars)		
Sales and other revenues	**$ 665.9**	$ 570.2	+ 17%
Funds from operations	**$ 228.9**	$ 214.5	+ 7%
Income applicable to ordinary shares	**$ 108.0**	$ 92.6	+ 17%
Capital expenditures	**$ 285.6**	$ 155.4	+ 84%
	(dollars)		
Per ordinary share			
Earnings	**$ 2.03**	$ 1.65	+ 23%
Dividends	**$ 0.50**	$ 0.50	
Market price			
High (voting)	**$ 17.38**	$ 20.00	
Low (non-voting)	**$ 11.88**	$ 13.63	
Close			
Voting	**$ 16.63**	$ 15.50	
Non-voting	**$ 15.50**	$ 14.00	
	(millions)		
Ordinary shares			
Average number outstanding	**53.3**	56.2	
Annual volume of trading	**22.1**	7.3	

Operating			
Oil and gas production	(thousands of barrels per day)		
Oil and gas liquids	**33.5**	34.7	− 3%
	(millions of cubic feet per day)		
Natural gas	**137.4**	130.7	+ 5%
Net wells drilled	**177**	126	
Oil and gas reserves	(millions of barrels)		
Oil and gas liquids	**117.3**	115.8	+ 1%
	(billions of cubic feet)		
Natural gas	**1,112.9**	1,086.0	+ 2%

Report to shareholders

In 1985, Norcen again achieved record financial performance. The Company was able to capitalize on the operating and financial flexibility it had set out to create in the previous year, making significant investments toward both future growth and enhancement of the Company's value to its shareholders. Norcen's expectation of policy change at the federal and provincial levels was borne out over the course of the year. These changes are clearly beneficial to the ongoing performance of the Company.

Highlights

Several business decisions, taken in 1985, indicate Norcen's firm commitment to oil and gas exploration and development in Canada and other geographic areas.

In its most significant transaction, Norcen invested $300 million for a six per cent interest in a partnership formed with Gulf Canada Limited and consisting of virtually all of Gulf's upstream assets and the assets of Superior Propane Limited, a wholly-owned Gulf subsidiary. On March 1, 1986, Norcen will exchange its share of the partnership for interests in five producing properties in Alberta and certain offshore properties which will enhance Norcen's frontier land position. On June 2, 1986, the Company will acquire the assets of Superior Propane Limited which, when combined with existing interests, will make Norcen the largest propane marketer in Canada.

In mid-1985, Norcen moved to improve the value of its ordinary shares at a time when management felt the shares were undervalued. The Company purchased 7.8 million of its ordinary shares for cancellation, thereby increasing per-share earnings, cash flow and asset value for remaining shareholders.

Norcen participated in a major frontier oil discovery in 1985. The Amauligak I-65 well is the most prolific ever drilled in the Canadian frontier and confirms the presence of a major hydrocarbon deposit. Results from this well and the original discovery well, Amauligak J-44 drilled in 1984, indicate the presence of oil reserves in excess of 700 million barrels. The project has potential to become the lead project in the Beaufort Sea and Norcen's 15 per cent interest secures a place for the Company in the development of Canada's frontier energy resources.

Following the disposition of its utility interests, Norcen's executive offices were moved to Calgary, the Company's main operating location. This move has led to greater efficiency and improved communication. As well, an office was opened in Sydney, Australia, to manage Norcen's interests and to act on new opportunities in that country. The Company continued to grow in the United States, acquiring interests in two natural gas properties.

Energy policy

The past year marked a watershed in Canadian energy policy. Governments acted decisively to reduce the burdens of taxation and regulation and to bring market forces to bear on energy decisions. Norcen supports these changes and believes they are in the long-term interest of the Company, the industry and the nation.

These changes included the deregulation of crude oil pricing, introduction of more flexible criteria for the export of natural gas, elimination of PGRT for new production, phasing out of PGRT on current production, reductions in royalty rates, the phased elimination of the PIP and APIP programs and the introduction of new federal and provincial incentives.

Norcen believes these changes correctly place greater risk on industry participants and in turn, provide the opportunity for greater reward. The effect is to remove a number of restrictions on industry growth and to create a policy framework within which industry can operate with greater efficiency.

Norcen responded to these changes by increasing capital spending to take advantage of the new opportunities created. Total exploration expenditures in the Western Canada Sedimentary Basin were $86.1 million in 1985, up 20 per cent over 1984 and representing a 28 per cent increase in the Company's original budget for 1985.

Outlook

The weakness of international oil prices presents the greatest uncertainty for the oil and gas industry in the immediate future. However, Norcen had anticipated crude oil price declines and is well-positioned to withstand their effect and to take advantage of investment opportunities that may arise.

The impact of declining prices on Norcen will be moderated by gains in production and reductions in taxation. The Company will continue to benefit from the stable and secure income streams of the propane marketing and oil and gas transmission operations, as well as U.S. dollar-denominated earnings from the mineral resources division.

While liquids production declined as a result of fluctuating demand and periodic restrictions in pipeline capacity, the Company expects to make considerable gains in production in 1986. These will accrue from acquisition of properties upon withdrawal from the Gulf partnership, increased production in the United States and the commencement of Australian production early in the second half of 1986.

Gas production was up five per cent from 1984, largely due to government policy changes which allowed more competitive pricing of natural gas exports to the United States. At the same time, Norcen believes that gas prices will continue to face downward pressure as a result of a persistent surplus in the United States and Canada and declining oil prices. Deregulation in Canada may result in softening of domestic prices, although regulated gas prices in this country have been generally low by North American standards. Competitive pricing of natural gas in both domestic and export markets should result in further volume gains.

Norcen's cash flow from current production will be enhanced by phased reductions in production taxes and royalties in 1986 and beyond.

Norcen's mineral resources division also shows potential for improvement in 1986. Iron Ore Company of Canada made inroads into international markets and a proposed restructuring of its sales and royalty contracts should allow for greater operating flexibility. M.A. Hanna Company took decisive action to revalue its holdings and achieve greater control over its operations and investments.

New gains are also expected from marketing of propane, as efficiencies are realized in the consolidation of new and existing operations.

Strategy

Norcen will work to strengthen itself financially and operationally to meet the longer-term challenge of major investments in an uncertain environment. In 1986, the Company will move to consolidate gains and acquisitions made in 1985. Norcen believes that the financial and operating flexibility it has maintained will be critical in ensuring future success. The Company intends to maintain balance sheet strength through careful cash management and closely-controlled development of existing resources.

Norcen remains committed to exploration and development in Western Canada and capital spending in 1986 will reflect this emphasis. The Company has largely met its commitments in frontier exploration and is well-positioned to benefit from future development in these areas.

Outside Canada, Norcen will continue to focus on oil and gas activities in the United States and Australia, particularly as production revenues from these countries increase.

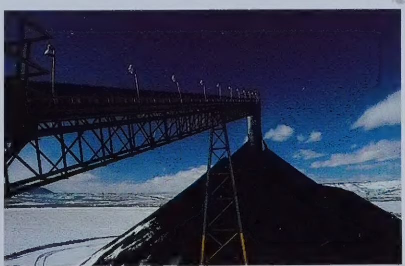
Norcen believes the current weakness in crude oil pricing could produce exceptional investment opportunities for companies in a strong financial position. Accordingly, the Company will continue its strategy of reinvesting funds derived from operations to augment income and asset values, thus providing a superior return to Norcen's shareholders.

On behalf of the Board

Conrad M. Black
Chairman

Edward G. Battle
President and
Chief Executive
Officer

February 18, 1986



Oil and gas

Through acquisition, exploration and development in Canada, the United States and Australia, Norcen more than replaced its 1985 oil and gas production.

Minnehik-Buck Lake gas treatment plant in west central Alberta.

Oil and gas revenues reached a record level of $575 million.

The Gulf Coast joint venture encountered oil and gas at 13 locations.

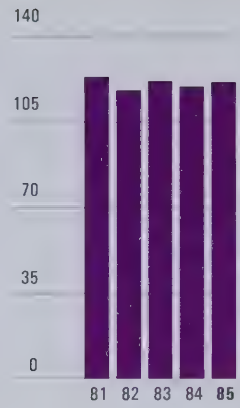
In Australia, production from the Jabiru well will commence in the second half of 1986.

Major exploration and development efforts added 6,450 barrels per day to productive capacity.

Amauligak I-65 confirmed the presence of large hydrocarbon deposits in the Beaufort Sea.

Oil and gas liquids reserves
(millions of barrels)

Norcen replaced 113 per cent of liquids production in 1985.



Norcen's oil and gas operations achieved record levels of revenue and operating income in 1985. Despite a 3.6 per cent reduction in oil and liquids production, deregulation of oil prices and changes in tax and royalty regimes resulted in improved operating income. Gas volumes increased by 5.1 per cent, more than offsetting the effect of reductions in export prices. Phased reductions of royalties and production taxes over the next few years will have a positive effect on operating income.

Through acquisition, exploration and development in Canada, the United States and Australia, Norcen replaced 113 per cent of its 1985 liquid production and 153 per cent of gas production. Total capital spending for exploration and development in 1985 was $337.8 million, including $63.5 million spent to acquire oil and gas properties in the United States.

Exploration and development

Western Canada

In 1985, capital spending on exploration and development in Western Canada was $137.6 million, up from $111.9 million in 1984. Of this total, $80.3 million was spent on exploration for conventional oil and gas, $36.2 million on development and production facilities, and $21.1 million on exploration and development in heavy oil areas.

Natural gas reserves
(billions of cubic feet)

Estimated reserves of natural gas were 1,113 billion cubic feet at year-end 1985.

Norcen is a major landholder in Western Canada, acquiring interests in 125,275 net acres in 1985 to bring its total Western Canadian holdings to 2.2 million net acres.

For the last few years, the Company has focussed its activities on oil exploration and development, while weak markets and a general oversupply have dictated less attention to natural gas. Norcen will maintain an emphasis on oil in 1986, but gas activity will begin to receive increased attention. The Company's exploration efforts are balanced between areas where small to medium-sized pools are likely to be found and areas where higher risks are offset by the potential for larger discoveries. Development drilling focussed on improving recovery in existing pools.

Revisions to provincial incentives provided a new impetus for conventional exploration. All three western provinces offer royalty exemptions or "holidays", ranging from one to five years in duration, for new oil and gas wells.

Crude oil

Drilling results in 1985 reflect the Company's emphasis on oil exploration and development. Of a total of 353 gross completed wells, the Company participated in the drilling of 277 oil wells.

Exploration and development took place across Alberta including areas such as Taber North and Countess-Lathom in the south; Pembina and West Pembina in central Alberta; and Gilwood/Triangle and Lubicon in the northern part of the province.

A major contribution to production was made by ongoing development in the Pembina area of central Alberta. A total of 23 new oil wells in this area added approximately 650 barrels per day to Norcen's productive capacity. Gains were also made through enhanced recovery programs. A higher recovery was realized from the miscible flood project in the Nisku "C" pool in the West Pembina area, adding approximately 500 barrels per day to the Company's share of production, while water floods at Spirit River and Harmattan East are expected to add 700 barrels per day in 1986.

In Saskatchewan, Norcen's 1985 activity was concentrated in conventional oil plays at Colgate, Dodsland and Whitebear. New oil wells in these areas will contribute nearly 400 barrels per day to Norcen's production.

In British Columbia, a development program at West Eagle added 500 barrels per day.

Heavy oil

The Company's 1985 heavy oil program resulted in a total of 44 new wells which added 600 barrels per day of productive capacity. These gains were offset by declines in other areas.

Norcen remains active in the development of enhanced recovery technology. By year-end, construction was nearing completion on a pilot enhanced recovery project using steam injection at Bodo, Alberta. The project, which involves nine producing and injection wells plus three observation wells, is near a 105 acre in-situ combustion project which the Company has operated since 1983.

Natural gas

Norcen's gas-related activity in the three western provinces was limited to areas where gas can be readily connected to markets.

Exploration in the Harmattan/Garrington area resulted in two new Elkton gas wells which will add approximately 5.0 million cubic feet per day to the Company's productive capacity. At Majorville, in southern Alberta, construction of a gas plant and tie-in of existing wells added 4.5 million cubic feet per day of capacity.

Canadian frontier

Norcen has participated in exploration plays in both the Beaufort Sea and East Coast offshore. As a result, the Company should benefit from eventual development in these areas. In 1985, the Company all but completed its obligations under farm-in agreements which give it interests ranging from 4.7 per cent to 18.0 per cent in more than 15 million acres. The year saw encouraging oil shows in both frontier areas.

Beaufort Sea

The Company participated in two Beaufort Sea wells in 1985, including a significant oil well at Amauligak.

Following the 1984 Amauligak J-44 discovery well, a delineation well, Amauligak I-65, confirmed the presence of large hydrocarbon deposits. The well tested 7,000 barrels per day from each of four zones with approximately 400 feet of net oil pay. One more delineation well was spudded early in 1986 and others may be drilled at Amauligak during the year.

Norcen remains obligated to participate in one more commitment well in the Beaufort Sea and has now earned interests in 2.3 million acres.

East Coast

Norcen is earning interests from 4.6875 to 9.375 per cent in 1.5 million acres in the Grand Banks through its participation in a seven-well program. Of the six wells drilled to date, two were completed in 1985. The Company also has options to earn additional acreage by participating in a further seven-well program. One of these wells was drilled in 1985 at North Ben Nevis.

Oil and gas revenues reached a record level of $675 million.

The Gulf Coast joint venture encountered oil and gas at 13 locations.

In Australia, production from the Jabiru well will commence in the second half of 1986.

Major exploration and development efforts added 6,450 barrels per day to productive capacity.

Amauligak I-65 confirmed the presence of large hydrocarbon deposits in the Beaufort Sea.

Two wells in the 1985 Grand Banks drilling program encountered hydrocarbons. The North Ben Nevis P-93 well produced oil and gas, and a delineation well was spudded in early 1986.

The Whiterose J-49 well, a follow-up to a well drilled in 1984, also tested oil and gas. A third well will be drilled on this structure in 1986.

Gulf partnership

On August 31, 1985, Norcen contributed $300 million in cash to a partnership which included most of the upstream assets of Gulf Canada Limited plus the assets of Superior Propane Limited and Gulf's Edmonton refinery. Norcen's interest in the partnership is approximately six per cent. The Company recorded $14.0 million as its share of partnership profits for the last four months of 1985.

Norcen will withdraw from the partnership on March 1, 1986. On withdrawal, the Company will acquire 70 per cent of the partnership's interest in the Stettler D-3A oil pool in Alberta plus 100 per cent of the partnership's interest in four producing oil and gas fields in Alberta: the Wildcat Hills Unit, the Stettler Nisku D-2 Unit, the Snipe Lake Beaverhill Lake Unit #1 and the Fenn West D-2A pool. The Company will also acquire certain of the partnership's exploration interests in the Hebron-Ben Nevis and West Ben Nevis areas, off the coast of Newfoundland. In addition, Norcen will acquire the assets of Superior Propane Limited, currently the second largest marketer of propane in Canada.

International

United States

Through successful exploration and the acquisition of producing properties, Norcen continued to expand in the United States.

Norcen has conducted an exploration program in the Rocky Mountain Basin since 1979.

A discovery and subsequent development program at Sandbar East in the Powder River Basin of northern Wyoming resulted in production of oil from 10 wells in which the Company has an interest. Norcen's share of production from this property was 1,175 barrels per day in December, 1985.

Norcen is active in exploration of the Gulf Coast area through a joint venture with a Houston-based independent operator and M.A. Hanna Company. The joint venture encountered oil and gas at 13 locations in 1985. Gas and condensate were discovered in Rusk County, Texas and in Calcasieu and Cameron Parishes in Louisiana. Oil was discovered in Wood County, Texas. Further drilling is planned at all locations in 1986.

Development of the 1984 South Grand Bois gas discovery in LaFourche Parish, Louisiana, proved up oil production in addition to earlier gas discoveries. Further oil development is planned in 1986.

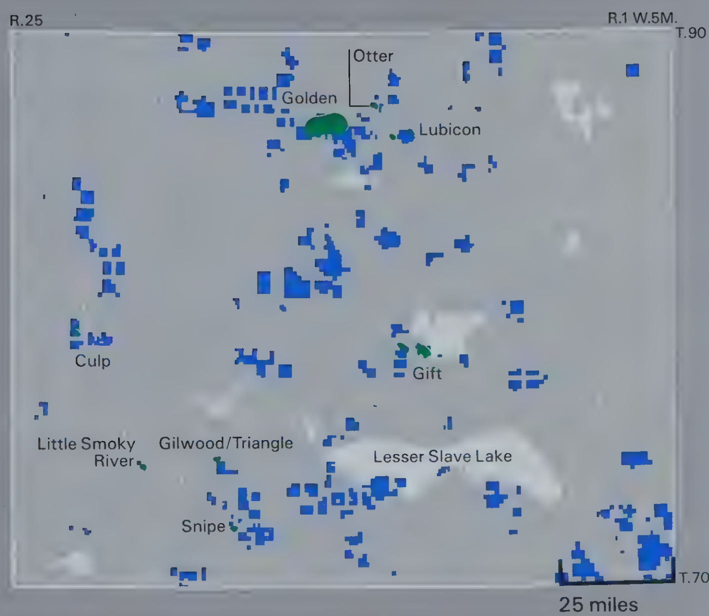
Norcen also acquired producing properties in the United States during the year. Interests were purchased in 82 natural gas wells in the Black Warrior Basin of Mississippi and Alabama. The Company also acquired an overriding royalty in the Natural Buttes Unit in Utah. The unit covers 78,000 acres and includes approximately 230 wells. Norcen's share of estimated productive capacity of these two properties is 14.5 million cubic feet per day.

Australia

In 1985, Norcen opened an office in Sydney, Australia, to manage its existing interests and pursue further oil and gas opportunities, especially in offshore areas. Norcen will participate in up to 13 wells in Australia in 1986.

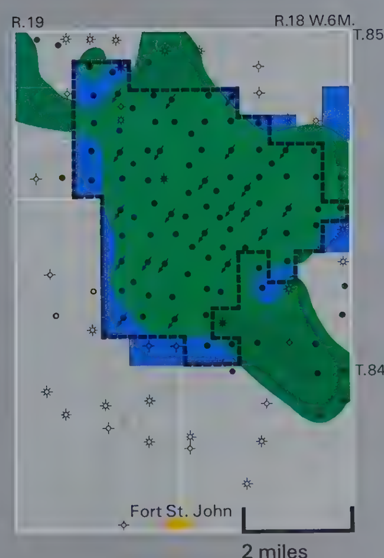
Development of the oil discovery at Jabiru, on permit AC/P26, was well underway at the end of 1985. It is expected that production will commence early in the second half of 1986 from a single well production system. Norcen's 12.5 per cent share of production will be approximately 1,600 barrels per day.

The Company holds a 12.5 per cent interest in 1.9 million acres under permit AC/P26 and a 4.4 to 5.0 per cent interest in 0.7 million acres under permit AC/P2, both off the northwest coast of Australia. Norcen participated in the drilling of three wells offshore Australia during the year, the third of which was drilling at year-end.



Peace River ■
Alberta

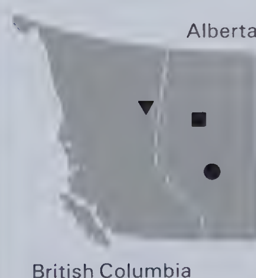
Pembina ●
Alberta



West Eagle ▼
British Columbia

Maps legend
- Norcen land interests
- Location/Drilling
- Development drilling
- Oil pool
- Oil well
- Gas well
- Water injection well
- Abandoned well
- Unit outline

Peace River
Exploration and development continued at several locations.



Pembina
A major contribution to production was made by ongoing development in the Pembina area. Approximately 650 barrels per day of productive capacity was added by 23 new oil wells.

West Eagle
In British Columbia, a development program at West Eagle added 500 barrels per day of productive capacity. Drilling continued in early 1986.

Norcen acquired a 12.5 per cent interest in permit WA 199-P which covers 1.1 million acres in the Timor Sea, adjacent to its existing interests. Approximately 3,000 miles of seismic have been shot in order to evaluate potential drilling locations.

Production

Liquid Hydrocarbons

Average daily production of liquid hydrocarbons was 33,453 barrels per day in 1985. Production of conventional crude oil declined to 26,045 barrels per day, down 4.3 per cent due to restrictions on production in Alberta which resulted from fluctuating demand and a shortage of capacity in Canada's major interprovincial oil pipeline. By year-end, programs to increase pipeline capacity were underway and supplementary "spot" sales of Alberta crude oil had eased demand-related constraints on production. Norcen expects that pipeline capacity will continue to constrain production in 1986.

Individually, a number of fields, including Taber North, Pembina and Colgate in Western Canada and Sandbar East in Wyoming, registered increases in production, offsetting declines in some of Norcen's older fields.

Production of natural gas liquids increased by 7.6 per cent as a result of the first full year of operation of the Company's processing plant at Fort Saskatchewan, Alberta. Production from the plant was approximately 1,275 barrels per day in 1985 and further upgrading of the facility is expected to increase capacity by 10 per cent in 1986. Gas liquids produced at this plant are sold for use in miscible flood projects. Production gains at the plant were partly offset by declines in field production of gas liquids.

Production of heavy oil in 1985 was 3,200 barrels per day, up from 3,170 barrels per day in 1984 and 2,750 barrels per day in 1983.

Norcen receives royalties on sales of synthetic crude oil derived from the mineable sands on a lease near Fort McMurray, Alberta. In 1985, after payment of PGRT, revenues amounted to $26.6 million, compared to $24.3 million in 1984. Difficulties experienced at the plant resulted in a decline in production in 1985 to 39,500 barrels per day, from 46,450 barrels per day in 1984.

An appeal of a decision of the Court of Queen's Bench of Alberta respecting Norcen's entitlement to royalties on certain revenues was heard in late 1985. A decision is expected in the first quarter of 1986.

Natural gas

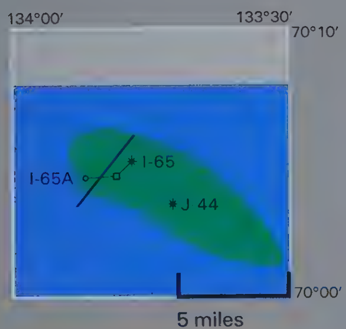
Gas production before royalties increased to 137.4 million cubic feet per day in 1985, up from 130.7 million in 1984.

Canadian sales of natural gas increased as a result of improvements in volumes exported to the United States. Norcen's wellhead prices remained relatively stable in 1985, with the Company receiving an average $ 2.74 per thousand cubic feet, compared to $2.79 in 1984.

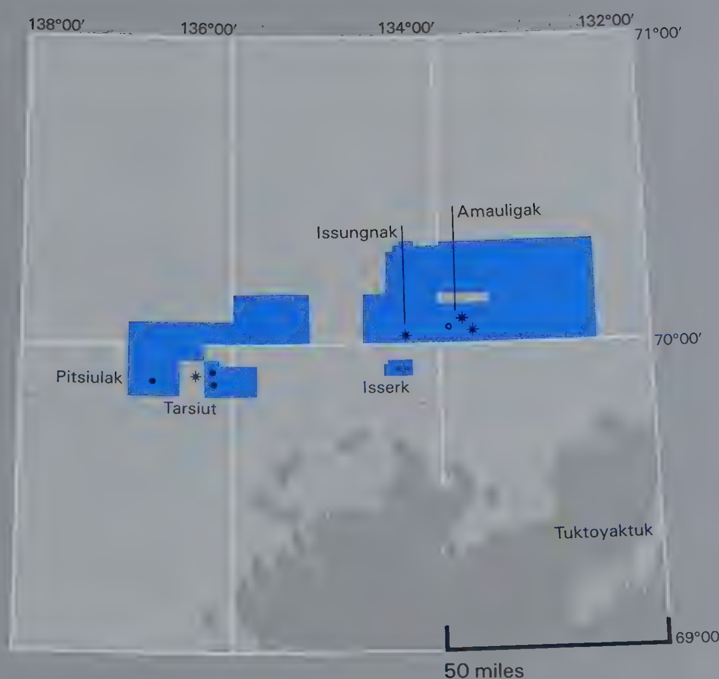
The federal government continued to move toward deregulation of natural gas sales. It announced that, effective November 1, 1986, prices of natural gas sold in Canada would be set by negotiation between purchasers and sellers, rather than by government regulation as has been the case. Restrictions on negotiated prices for gas sold to the U.S. were further relaxed. This is expected to allow Canadian natural gas to remain competitive in North American markets.

Reserves

As of December 31, 1985, reserves of crude oil, synthetic crude and gas liquids, before royalties, were estimated to be 117.3 million barrels, compared with 115.8 million barrels at the end of 1984. Estimated reserves of natural gas, before royalties, were 1,113 billion cubic feet, compared to 1,086 billion cubic feet at the 1984 year-end. These amounts do not include Norcen's interests in the Beaufort Sea, Arctic Islands, oil sands reserves at Cold Lake, Alberta or the Gulf partnership. The Company estimates its reserves in the United States to be 3.4 million barrels of proved and probable oil and 91.5 billion cubic feet of proved and probable natural gas.

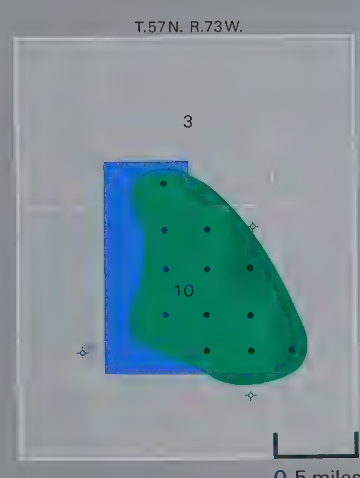


Amauligak ■
Beaufort Sea (detail)



Beaufort Sea ■
Northwest Territories

Avalon Basin ●
Newfoundland



Sandbar East ▼
Wyoming

Maps legend
- Norcen land interests
- Location/Drilling
- Oil pool
- Oil well
- Gas well
- Abandoned well
- Berm

Amauligak
Following on the 1984 Amauligak J-44 discovery well, the Amauligak I-65 well confirmed the presence of a large hydrocarbon deposit. The well tested 7,000 barrels per day from each of four zones.

North America

Avalon Basin
The 1985 Grand Banks drilling program encountered oil and gas at the North Ben Nevis P-93 and Whiterose J-49 wells.

Sandbar East
In December, the Company's share of production was 1,175 barrels per day from 10 wells drilled on this Minnelusa oil prospect discovered in 1985 by Norcen.

Oil and gas land holdings

December 31, 1985	Leases		Permits, Licences and Exploration Agreements		Total	
	Gross	Net	Gross	Net	Gross	Net
	(thousands of acres)					
Canada						
Alberta	4,000	1,560	388	236	4,388	1,796
British Columbia	936	198	8	2	944	200
Saskatchewan	238	123	12	9	250	132
Manitoba	96	38			96	38
Ontario	2	1			2	1
Canadian Frontier						
Arctic	2	1	3,718	323	3,720	324
Beaufort Sea	16	3	2,304	240	2,320	243
Yukon			1,620	648	1,620	648
Northwest Territories			475	72	475	72
Offshore East Coast	8	1	7,183	736	7,191	737
Total Canada	5,298	1,925	15,708	2,266	21,006	4,191
International						
United States	761	206			761	206
Australia			3,823	423	3,823	423
Total	6,059	2,131	19,531	2,689	25,590	4,820

In addition to the above, overriding royalty interests are held in 2 million gross acres and net carried interests in 172,847 gross (10,036 net) acres.

1985 Drilling statistics

	Oil		Gas		Dry		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Western Canada								
Exploration								
Conventional	64	24.2	24	10.1	76	31.5	164	65.8
Heavy oil	8	4.8	3	1.1	18	8.0	29	13.9
	72	29.0	27	11.2	94	39.5	193	79.7
Development								
Conventional	124	25.3	39	9.9	17	5.2	180	40.4
Heavy oil	41	21.5			8	3.6	49	25.1
	165	46.8	39	9.9	25	8.8	229	65.5
Total Western Canada	237	75.8	66	21.1	119	48.3	422	145.2
Canadian frontier					10	1.1	10	1.1
Total Canada	237	75.8	66	21.1	129	49.4	432	146.3
International								
United States	40	9.7	10	3.3	65	17.6	115	30.6
Australia					2	0.1	2	0.1
Total international	40	9.7	10	3.3	67	17.7	117	30.7
Total	277	85.5	76	24.4	196	67.1	549	177.0

Liquid hydrocarbons production

(barrels per day before royalties)	1985	1984
Alberta		
West Pembina	**5,191**	6,325
Pembina	**2,610**	2,534
Countess-Lathom	**2,280**	2,340
Harmattan	**1,848**	2,051
Provost-Bodo	**1,224**	1,312
Lloydminster	**1,070**	1,122
Joarcam	**716**	732
Taber North	**659**	427
Golden	**525**	1,280
Minnehik-Buck Lake	**468**	335
Others	**7,308**	7,675
Synthetic crude	**2,469**	2,903
Processing liquids	**1,787**	907
	28,155	29,943
Saskatchewan		
Colgate	**760**	566
Tatagwa	**504**	694
Royalty interest	**505**	497
Others	**1,171**	1,257
	2,940	3,014
British Columbia		
Eagle	**1,026**	1,158
Peejay	**204**	228
Others	**186**	212
	1,416	1,598
U.S.A.		
Sandbar East	**641**	0
Others	**301**	139
	942	139
Total	**33,453**	34,694

Natural gas production

(millions of cubic feet per day before royalties)	1985	1984
Alberta		
Harmattan	**18.4**	17.7
Minnehik-Buck Lake	**16.5**	10.5
Boyer	**8.1**	6.7
Cherhill (Majeau Lake)	**7.1**	8.1
Crossfield	**6.6**	5.6
Verger	**4.6**	3.8
Ghost Pine	**3.7**	4.4
Westlock	**3.5**	5.5
Big Bend	**2.7**	2.5
Bruce	**2.5**	2.6
Others	**50.0**	54.9
	123.7	122.3
British Columbia		
Yoyo	**1.7**	1.0
Jedney-Bubbles-East Laprise	**1.0**	1.2
Royalty interest	**2.1**	2.4
Others	**3.1**	3.1
	7.9	7.7
U.S.A.	**5.8**	0.7
Total	**137.4**	130.7

1985 Norcen exploration and development highlights Western Canada

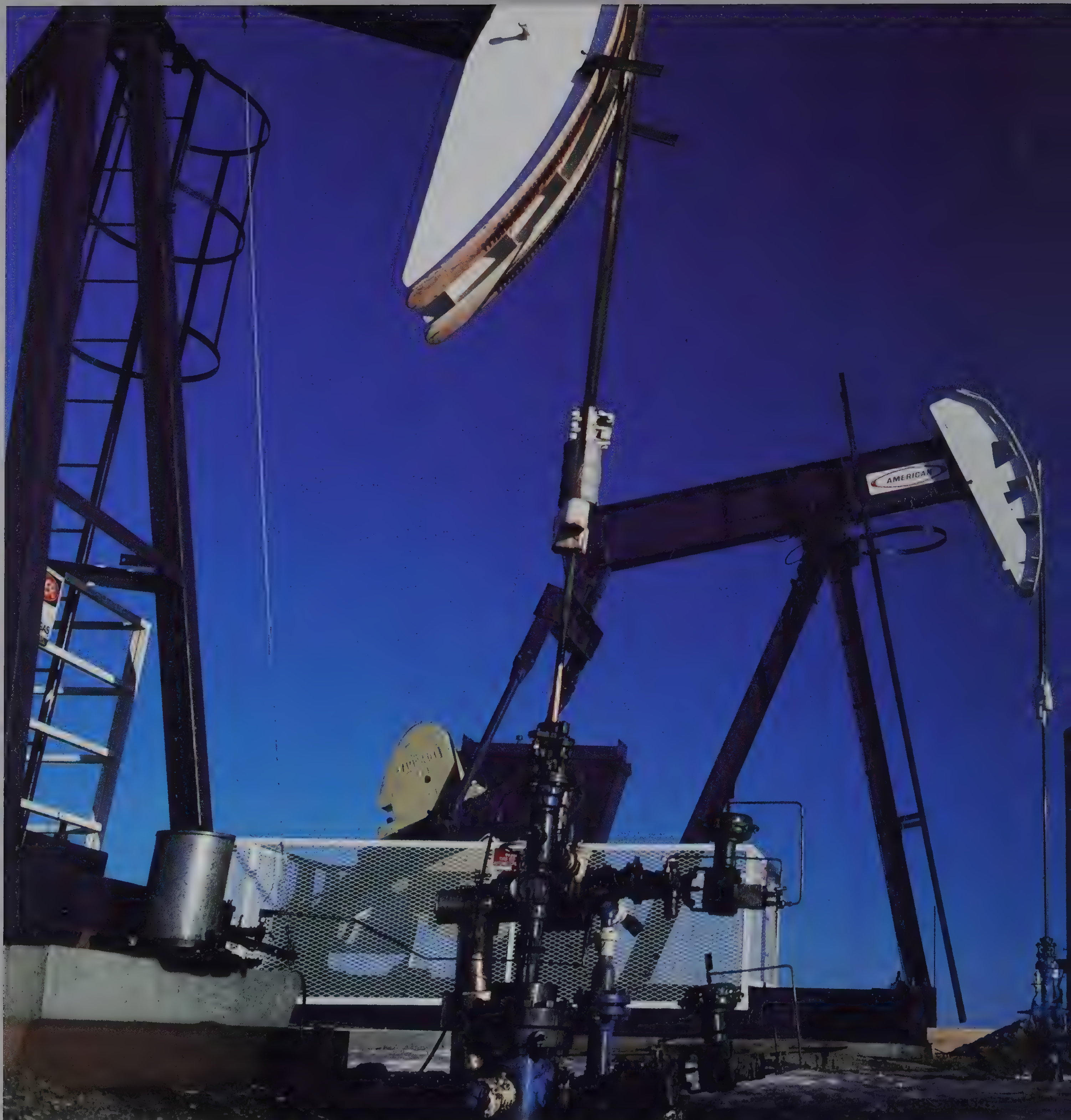
	Drilling	Norcen share	New capacity[1]	Comments and future activity
Conventional oil				
Alberta				
Pembina	23 oil wells	20-100%	650 B/D	25 wells planned in 1986. Further production increases anticipated.
W. Pembina		50%	500 B/D	Higher recovery factors recognized for miscible flood in Nisku "C" pool.
Spirit River		15.1%	400 B/D	Unitization, water flood and gas gathering to be implemented in 1986.
Harmattan East		17.5% app.	300 B/D	Unitization and water flood to be completed in 1986. Further drilling is also planned for the year.
Countess-Lathom	15 oil wells	22.5-28.7%	200 B/D	Nine wells planned in 1986.
Other areas	17 oil wells	12.5-100%	950 B/D	Includes Taber N., Cherhill, Lubicon, Gilwood/Triangle, Culp, Otter/Ogston, Shouldice, Hays and Latornell.
Saskatchewan				
Colgate	1 oil well	75.2%	200 B/D	Ongoing development.
Other areas	12 oil wells	50-100%	150 B/D	Includes Dodsland and Whitebear.
British Columbia				
West Eagle	7 oil wells	15%	500 B/D	Four more wells to be drilled early in 1986.
Total[1]			3,850 B/D	
Natural gas				
Alberta				
Harmatton/Garrington	2 gas wells	25-75%	5.0 MMCF/D	To be on-stream mid-1986.
Majorville		50%	4.5 MMCF/D	Gas plant and tie-in of wells. Production to start mid-1986.
Spur	2 gas wells	30-90%	2.0 MMCF/D	Further drilling planned in 1986.
Other areas		50-100%	2.5 MMCF/D	Includes drilling at Saddle Hills, tie-ins at McLeod River and Grimshaw.
Saskatchewan				
Hatton	11 gas wells		1.0 MMCF/D	
Total[1]			15.0 MMCF/D	
Heavy oil				
Bodo	7 oil wells	78.1%	200 B/D	Steam pilot project. Baseline primary production prior to steam injection.
Hearts Hill	8 oil wells	50%	100 B/D	Continuing development of 1983 Bakken discovery.
Wildmere	6 oil wells	50%	50 B/D	
Other areas	23 oil wells	25-100%	250 B/D	
Total[1]			600 B/D	

[1]Norcen share of estimated incremental productive capacity, before royalties, arising from 1985 activity.

1985 Norcen exploration and development highlights United States

	Drilling	Norcen share	New capacity[1]	Comments and future activity
Sandbar East, Wyoming	10 oil wells	20-25%	1,200 B/D	Norcen pursuing unitization and water flood.
Wood County, Texas	1 oil well	56.3%	50 B/D	Two further wells planned in 1986.
South Grand Bois, Louisiana	1 oil well	70%	200 B/D	Additional development planned in 1986.
Rusk County, Texas	1 gas and condensate well	70%	1.0 MMCF/D 50 B/D	Further development planned in 1986.
Bayou Choupique, Louisiana	1 gas and condensate well	52.5%	1.5 MMCF/D 400 B/D	Two wells planned in 1986.
S.E. Lake Verrett, Louisiana	1 gas and condensate well	52.5%	1.5 MMCF/D 100 B/D	Production to commence in first quarter, 1986.
Black Warrior Basin, Mississippi and Alabama	82 gas wells		12.0 MMCF/D	Property acquisition.
Natural Buttes Unit, Utah	230 gas wells		2.5 MMCF/D	Property acquisition.
Total[1]			18.5 MMCF/D 2,000 B/D	

[1]Norcen share of estimated incremental productive capacity, before royalties, arising from 1985 activity.



Marketing and transmission

In 1986, Norcen will become Canada's largest retail distributor of propane.

A truck from Cigas' Macklin, Saskatchewan branch delivers propane to oil field operations at Bodo, Alberta.

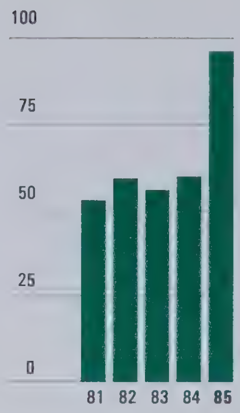
Norcen will acquire Superior Propane Limited in 1988.

Sales volumes increased 63 per cent over last year.

Cigas converted approximately 2,500 vehicles from gasoline to propane during the year.

Sales of propane
(millions of imperial gallons)

Norcen is a major Canadian marketer of propane.



A growing contribution to Norcen's revenues is being generated by activities related to marketing and transmission of hydrocarbons including marketing of propane; transmission, processing and distribution of natural gas, and transmission of crude oil.

Propane marketing

Norcen, through its wholly-owned subsidiary, Cigas Products Ltd., is a major Canadian marketer of propane for home, commercial, industrial and motor fuel uses. Cigas has continued to grow through expansion, acquisitions and the marketing of propane as a motor fuel.

The increasing use of propane as a fuel for cars and trucks is a major source of new sales. Sales of propane for this purpose amounted to about 28 per cent of the Company's total sales in 1985. Through company-owned facilities, approximately 2,500 vehicles were converted from gasoline to propane in the year. Cigas continues to concentrate its marketing efforts on conversions in small to medium-sized vehicle fleets.

Further growth occurred through acquisition of existing businesses. In March, 1985, Cigas acquired Monarch Propane Limited. Monarch operates branches in southern Ontario, selling propane for heating and motor fuel applications.

In early 1985, Cigas acquired two existing branches in Ontario and opened three new branches in Alberta, two in Saskatchewan and one in Manitoba. In Western Canada, expansion was due in part to increasing activity levels in the oil and gas industry. Propane is used as a fuel for certain oilfield operations and related service vehicles.

Sales volumes in 1985 amounted to 93.5 million gallons of propane, compared to sales of 57.7 million gallons in 1984. Nearly 500 motor fuel dispensing outlets across Canada

are presently serviced by the Company and this number will increase significantly in the coming year.

As a result of the partnership agreement with Gulf Canada Limited, Norcen will acquire the assets of Superior Propane Limited on June 2, 1986. Superior is currently Canada's second largest marketer of propane and its operations are complementary to those of Cigas and Monarch. When the three are combined, a network of 130 branches and 1,300 dispensing outlets across Canada will make Norcen the largest retail marketer of propane in Canada.

Industrial gas system

Norcen owns and operates a natural gas gathering and distribution system in Alberta which consists of two natural gas processing plants and approximately 320 miles of gathering and distribution pipeline. The system serves several major industrial users of natural gas in the Edmonton area and transports gas to other gas purchasers. Average sales of the industrial gas system were 43.0 million cubic feet per day in 1985, compared to 45.9 million cubic feet per day in 1984.

Crude oil gathering and transmission

Norcen owns and operates approximately 615 miles of oil transmission pipelines and gathering systems in the four western provinces. Crude oil movements through the oil transmission system averaged 78,600 barrels per day in 1985 and 84,600 barrels per day in 1984.

Norcen will acquire Superior Propane Limited in 1986.

Sales volumes increased 63 per cent over last year.

Cigas converted approximately 2,500 vehicles from gasoline to propane during the year.

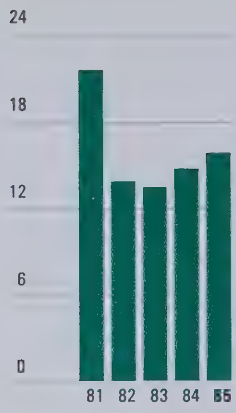
Mineral resources

Iron ore sales continued to recover as IOC made inroads into international markets.

Two massive draglines at a coal operation in Colorado, operated by Colowyo Coal Company, in which M.A. Hanna Company is a partner.

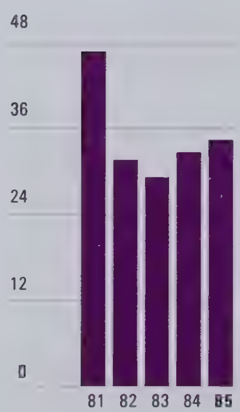
Iron ore sales by IOC
(millions of tonnes)

IOC's sales recovered somewhat in 1985.



Iron ore royalties
(millions of dollars)

In 1985, Norcen received royalty payments of $33.2 million from IOC.



The principal assets in Norcen's mineral resources division include a 28 per cent interest in the M.A. Hanna Company; a royalty interest in iron ore produced by Iron Ore Company of Canada (IOC) and 10.5 per cent of the shares of IOC; royalties on gold ore mined and milled by Pamour Porcupine Mines Limited, and an interest in the Obed-Marsh thermal coal project.

Iron ore

IOC is a world-scale producer of iron ore, and the largest in Canada. IOC operates mining, concentrating and pelletizing facilities near Labrador City from which ore in concentrate and pellet form is shipped by rail to Sept-Iles, Quebec. In Sept-Iles, ore is handled at IOC-owned storage and dock-loading facilities.

Known iron ore reserves at IOC's plants will support operations at current levels for at least 30 years. By virtue of its reserves and location, as well as the scale and efficiency of its operations, IOC has remained an important supplier of iron ore pellets to North American steel mills and of pellets, concentrates and natural ore to overseas markets.

In 1985, IOC sold 8.7 million tonnes of pellets, 5.0 million tonnes of concentrates and 1.8 million tonnes of direct shipping ore. This compares to 6.8 million tonnes of pellets, 6.0 million tonnes of concentrate and 1.5 million tonnes of direct shipping ore sold in 1984. During 1985, 34 million tonnes of crude ore were mined, up from 30 million tonnes in 1984.

World iron ore and steel markets continued to be highly competitive, in the face of a slow recovery of the steel industry. Steelmakers in the United States, which represent IOC's primary market, continued to experience difficulties in 1985. Lower demand due to use of alternatives to steel, and imports of steel and steel products, had a negative effect on the industry and its suppliers. Outside North America, steel producers showed only slightly better performance, as the world economy becomes less dependent on steel.

IOC's sales in 1985 generally followed patterns in world markets. Sales of pellets to North American buyers declined somewhat, but were offset by increased sales in international markets. IOC's continuing efforts to decrease production costs have allowed it to compete in these markets, against ores from Australia, Brazil, and other producers. Nearly three million tonnes of pellets were sold at

world prices in 1985 and higher volumes are expected in 1986. Sales of concentrates to Europe and Japan continue on a year-to-year basis. These incremental volumes allow IOC to realize further gains in efficiency through improved utilization of facilities.

IOC mines on leases which are held by wholly-owned subsidiaries of Norcen, and which are sublet to IOC for the term of the head lease. Under the sub-leases, IOC must pay a royalty for each tonne of ore sold, based on the sales price of the ore. In 1985, Norcen received royalty payments of $ 33.2 million from IOC.

A proposal has been discussed with the shareholders of IOC to amend IOC's contracts to sell pellets to certain shareholders. It is proposed that the contracts be extended and be amended as to volume and price. Coincident with this restructuring, it is proposed that Norcen's royalty rates be increased.

M.A. Hanna Company

M.A. Hanna Company (formerly The Hanna Mining Company) is a natural resource company based in Cleveland, Ohio. Hanna's interests include mining, processing and transportation of iron ore, silicon, ferrosilicon and nickel; coal mining; oil well drilling, and oil and gas exploration and production. Hanna is a partner with Norcen in certain oil and gas projects in the United States.

In 1985, Hanna continued to restructure its operations in order to achieve greater control over operations and investments.

The Butler Taconite project, a major iron ore producer in which Hanna held an interest was permanently closed in 1985. Hanna also moved to restructure its holdings in the oil well drilling and servicing industries, and its interests in coal properties in the eastern United States. Hanna's 1985 loss of U.S. $115.2 million reflects non-recurring charges and credits of U.S.$138 million in respect of restructuring efforts.

Hanna's remaining operations present the potential for renewed profitability in the future.

Iron ore: Hanna manages IOC and is the largest single shareholder, holding a 26.8 per cent interest. IOC's continued improvement in performance and its fundamental strength make it an important holding for Hanna.

Hanna also owns and operates vessels and dock-loading facilities for the transportation and handling of iron ore and coal in the Great Lakes. Through its 96 per cent interest in the St. John d'el Rey Mining Company, Hanna holds a one-third interest in a large privately-owned Brazilian iron-ore producer.

In January, 1986, Hanna announced that it had entered into preliminary discussions with respect to a possible sale of its interest in St. John d'el Rey Mining Company.

Nickel: Hanna owns a fully-integrated nickel mining and smelting operation in Oregon. In 1985, Hanna undertook a U.S.$13 million capital upgrading project to improve the efficiency of the operation. Hanna also owns a six per cent interest in a nickel operation in Colombia.

Coal: In a joint venture with a major company, Hanna owns two coal producers in Colorado. Hanna also produces coal in the eastern United States through its ownership of one facility and a 50 per cent interest in another.

Oil and gas: Hanna's oil and gas interests include participation with Norcen in a joint venture exploration program in the U.S. Gulf Coast states (see Oil and gas). Hanna also holds controlling interest in Midland SouthWest Corporation, an oil well drilling contractor.

In other interests, Hanna produces silicon and ferrosilicon metal at a wholly-owned smelter in the State of Washington, provides consulting and management services and operates a metallurgical research facility.

Production and sales of iron ore continued to increase in 1985.

Hanna restructured operations to achieve greater control.

Gold mining

Norcen receives an annual royalty on gold ore mined and milled by Pamour Porcupine Mines Limited at two sites near Timmins and Holtyre, Ontario. Royalties in 1985 were $ 0.7 million on 370,000 tons, compared to $1.1 million on 526,000 tons mined in 1984.

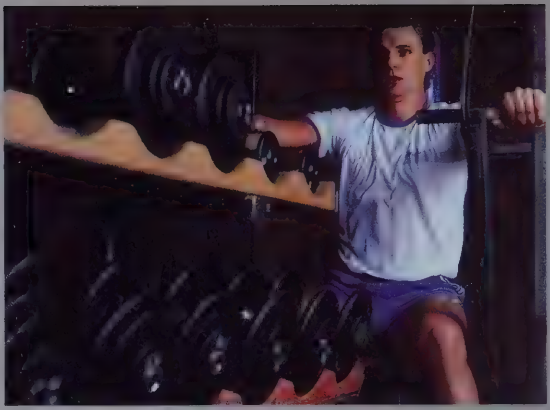
Coal

Norcen owns a working interest of approximately seven per cent in the Obed-Marsh thermal coal project in west central Alberta. In 1985, the project produced and sold 0.7 million tonnes of coal primarily to utilities in Europe, Japan, North America and China. Some of the mine's high-volatile production is now being blended with low-volatile metallurgical coal to produce a more desirable thermal blend and gain access to additional markets.

After closing the Coleman Collieries Limited plant in 1983, the Company sold most of its remaining assets in 1985.

Social responsibility

While Norcen believes that its most important contribution to Canada is the creation and enhancement of economic opportunities and employment, it recognizes it has additional social reponsibilities, particularly to the communities in which it has business interests. The Company's community support and human resource programs are two ways in which it meets these obligations.



An employee exercises at the Norcen Club, located at the Company's Calgary office.

Human resources policy

Norcen recognizes that its employees are an important asset to the Company, and the community. The Company encourages employee development through in-house training programs, financial support for job-related education and emphasis on promotion from within. In dealing with employees, the Company practises equality of opportunity and fairness in its salary policies.

Crowds gather in the new Calgary Centre for the Performing Arts. Norcen supports a number of local and national cultural organizations.

Community support programs

Norcen provides financial support for local and national non-profit organizations involved with health and welfare, culture, civic and public education causes. Contributions are made within established guidelines with priority given to organizations involved in communities where Norcen has operations or employees. In 1985, the Company received requests from 532 organizations across Canada.

In 1985, Norcen made major contributions to universities in Alberta, Saskatchewan, Newfoundland and Ontario. In the health and welfare category, the Company contributed significantly to United Way and Salvation Army appeals as well as organizations supporting research in mental health and geriatrics.

David Amram receives appreciation from youthful admirers after performing with the Calgary Philharmonic Orchestra at a Norcen-sponsored Young People's Series concert.

The Company's sustained patronage of the arts was recognized in April, 1985, when it was awarded the 1984 Financial Post Award for Business and the Arts.

Other ways in which Norcen practises good corporate citizenship include policies in repect of ethical business practices, local and regional procurement, environmental protection and cooperation with governments and the industry.

Management's financial analysis and discussion

Net income improved 14.7% over 1984 to a new record at $119.7 million. This improvement, which followed growth of 33.1% in 1984, was achieved in spite of the sale, on September 30, 1984, of the gas utilities which had contributed over $21.8 million to annual earnings.

Earnings from continuing operations increased 45% primarily due to increased contributions from the oil and gas division and an increase in investment and other revenues. However, growth of cash generated from operations slowed somewhat to $14.4 million in 1985 from $32.7 million in 1984.

Basic earnings per ordinary share improved 23% over 1984 to $2.03 per share. This was proportionately higher than the net income increase because of issuer bids. During 1985, the Company purchased, by way of a normal course issuer bid on the open market at an average cost of $14.12 per share excluding brokerage commissions, 1,835,600 of its non-voting ordinary shares. In addition, pursuant to substantial issuer bids made on the floor of The Toronto Stock Exchange on August 30, 1985, the Company purchased at a price of $15.75 per share excluding brokerage commissions, 940,533 of its voting ordinary shares and 5,038,320 of its non-voting ordinary shares. All shares acquired under the issuer bids were subsequently cancelled.

On March 28, 1985, a new agreement (''the Western Accord'') was announced by the federal government and the Governments of Alberta, British Columbia and Saskatchewan. This agreement provides for the deregulation of crude oil pricing on June 1, 1985, reductions in production revenue taxes and elimination of the Petroleum Incentive Program. Subsequent announcements by the Government of Alberta provide for a program of reduced royalties and new incentives for exploration and development drilling. The federal government further announced gas deregulation commencing in 1986. While the benefit of these agreements and programs was not significant to the current year's results, it improved asset values significantly and will reduce the royalty and taxation burden on production revenues in future years.

On January 21, 1985, the Court of Queen's Bench of Alberta ruled adversely to Norcen in respect of its lawsuit against Suncor Inc. concerning Norcen's entitlement to royalties on certain revenues. Norcen appealed this decision and the hearing was held in the Alberta Court of Appeal in December, 1985. Norcen anticipates a decision in the first quarter of 1986. In the event of a successful appeal and no subsequent appeal by Suncor Inc., Norcen would record, as an adjustment to opening retained earnings in 1986, cumulative earnings of approximately $32.2 million net of revenue taxes and income taxes. The issue under dispute with Suncor, which is the Petroleum Compensation Payment component of the price on which Norcen receives its royalty, was eliminated on June 1st, 1985, when deregulation of crude oil pricing was implemented and compensation pricing was abandoned.

Results of operations by business segment for the three years ended December 31, 1985, are set out in Note 12 to the consolidated financial statements. In the year, an increased amount of revenue was derived from investments and other sources not directly allocated to operating divisions. These have been segregated in the statement of income as ''Investments and other revenue'' and prior years' comparable amounts have been reclassified.

Revenues and expenses

Sales revenues and operating income of the oil and gas division increased 11.8% and 5.4% respectively over 1984 after increases of 19.7% and 27.6% in 1984 over 1983. Liquids revenues increased despite a decline in production level to 33,453 barrels per day from a record of 34,694 barrels per day in 1984 which was primarily due to low refinery demand and transportation constraints. Higher average prices were received both in the regulated and deregulated periods of 1985 compared to 1984 when regulated prices were comparable to the

previous year. Gas revenues increased because of continuing growth in production volumes notwithstanding decreased prices for exports to the U.S. Propane marketing margin increased $14.0 million over 1984 with the February 1, 1985 acquisition of Monarch Propane Limited as well as due to increases in sales and lower product costs of the preacquisition business. Mineral resource division revenues and operating income were steady. Increased volumes offset somewhat lower average prices as Iron Ore Company of Canada concentrated more on world markets than it has in the past.

Investment and other revenue increased, to $44.8 million from $10.8 million in 1984, as a result of profits on the investment in a partnership with Gulf Canada Limited (''Gulf partnership''); dividends from investments in the securities of both Inter-City Gas Corporation and Northern and Central Gas Corporation Limited in connection with sale of the latter, and withdrawal of $16.9 million of excess reserves in certain employee benefit plans.

Production and operating expenses increased by 19% over 1984 in comparison to a 10% increase in 1984 over 1983. Principal factors accounting for increases in excess of normal inflation were an increased number of well-stimulation and workover projects and an increased level of activity in the U.S. Exploration and development programs and property acquisitions in the United States resulted in significant increases in liquids and natural gas production and corresponding cash flows. Expenditures on municipal taxes and insurance premiums also contributed significantly. Norcen, as well as the rest of industry, is concerned as to its future ability to protect its assets through current property and liability insurance policies. Norcen was successful in fulfilling that objective in 1985 at the expense of both increased deductibles and premium costs.

Production revenue taxes decreased in absolute dollars and in relation to production revenues. Partly the effect of the Western Accord which exempted from Petroleum Gas Revenue Tax all new production from April, 1985, it also was due to increased operating cost deductions and recovery of Incremental Oil Revenue Tax paid in earlier years on the royalty from Suncor. Depreciation and depletion increases reflect the ongoing effects of Norcen's capital expenditure program and the increasing cost of adding new reserves.

Financial expense increased by $3.1 million over 1985, after an increase of $5.9 million in 1984. Financial expense was reduced in the early part of the year as a result of lower variable interest rates and application of the cash proceeds for sale of the gas utilities, and of certain oil and gas properties. This gain was offset in the latter part of the year by an increase in financial expense from investment in the Gulf partnership, the purchase of ordinary shares pursuant to issuer bids and two acquisitions in the U.S. The increase in 1984 was largely due to the full-year effect of the mineral resource acquisition in mid-1983.

Norcen's effective tax rate for 1985 was reduced to 50.9% from 58.9% in 1984 and 57.2% in 1983. This was primarily due to declines in non-deductible production revenue taxes, reductions in non-deductible royalties due to expansion of royalty holidays, increases in non-taxable dividend income and other tax reduction arrangements with third parties.

Capital and other spending

Capital expenditures on oil and gas exploration development, and marketing before federal and provincial incentives, increased to $371.3 million from $242.8 million in 1984 and $221.8 million in 1983. Development expenditures increased $29.5 million over 1984 as a result of increased emphasis on new production projects in Canada and the United States. In addition, Norcen acquired interests in two U.S. properties producing primarily gas at an aggregate cost of $63.5 million. The first of these was an overriding royalty interest in 230

gas wells in Utah and the second, an interest in 82 natural gas wells in Mississippi and Alabama. Propane marketing expenditures increased $17.0 million which included the Monarch Propane Limited acquisition.

On August 31, 1985, Norcen acquired an approximate 6% interest in the Gulf partnership at a cost of $300 million (See Note 4(c) to the consolidated financial statements). Until withdrawal, which will occur on March 1, 1986, Norcen receives a proportionate share of partnership profits.

In 1984, Norcen increased its interest in M. A. Hanna Company from 20% to 28% at a cost of $33.8 million and, in 1983, it acquired its principal mineral resource assets for $324.3 million.

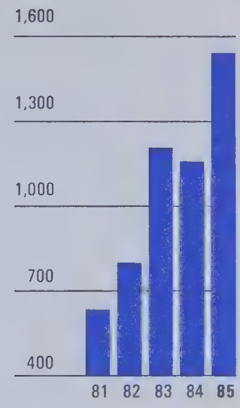
Financing activities

Early in 1985, short-term debt was reduced significantly as a result of closing the sale of gas utility operations and sale of certain resource properties. As 1985 progressed, short-term debt had increased in connection with a normal course issuer bid, capital expenditures and acquisition of U.S. gas properties. At year-end, short-term debt was down $58.9 million from its opening position. Short-term debt increased $83.8 million in 1984 as a result of repayment of a portion of indebtedness incurred in the mineral resource asset acquisition in 1983.

On August 30, 1985, new lines of term bank credit were established, with three Canadian banks, for $300 million to finance the Gulf partnership acquisition and for $90 million to finance purchase for cancellation of ordinary shares pursuant to two issuer bids. On February 11, 1986, Norcen closed the sale of $100 million of 8.12% Second Preference Shares, Series A, proceeds of which will be used mainly to retire term bank credits.

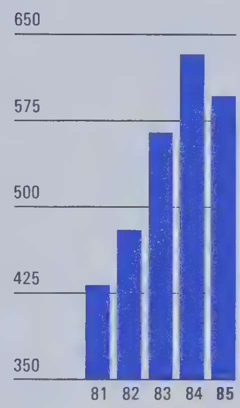
Total capitalization
(millions of dollars)

New lines of credit were opened to finance the Gulf partnership and two issuer bids.



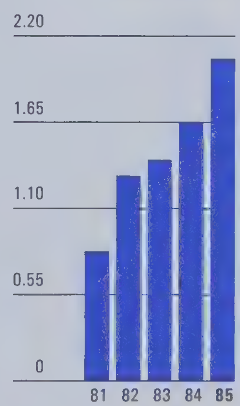
Shareholders' equity
(millions of dollars)

Shareholders' equity declined, reflecting the impact of normal course and substantial issuer bids.



Earnings per share
(dollars per common share outstanding)

Basic earnings per ordinary share improved 23 per cent over 1984.



Accounting policies

The annual report and the accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and comply with United States disclosure requirements in all material respects. The principles used were those judged by management to be the most appropriate in the circumstances. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the consolidated financial statements, and that all information contained in the annual report is consistent with the consolidated financial statements. The Company's auditors are responsible for auditing the consolidated financial statements and for giving an opinion on them. The Audit Committee of the Board of Directors is responsible for reviewing the annual consolidated financial statements and reporting thereon to the Board, making recommendations to the Board with respect to the appointment and remuneration of the Company's auditors, reviewing the scope of the audit and reviewing the Company's internal financial controls.

Basis of presentation

The consolidated financial statements include the accounts of Norcen and all of its subsidiaries. Norcen's business is organized into two operational segments, namely, oil and gas and mineral resources after giving effect to the sale of its gas utilities operations effective September 30, 1984 (Note 2).

Certain prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for 1985.

Foreign currency translation

Current assets and current liabilities are translated at the rates of exchange prevailing at the balance sheet dates. Long-term assets are translated at rates in effect at the dates the assets were acquired. Long-term liabilities are translated at the rates of exchange prevailing at the balance sheet date. Any foreign exchange gains or losses arising on translation of long-term liabilities are deferred and amortized over the remaining term of the liabilities. Sales and other revenues and costs and expenses are translated at the average rate of exchange for the respective year. The resulting gains and losses are included in income.

Properties, plant and equipment

Oil and gas

Oil and gas properties, in accordance with the full cost method of accounting, include worldwide expenditures related to the acquisition, exploration and development of oil and gas reserves, whether or not potentially productive. As set out in Note 5, commencing January 1, 1985 these costs are depleted on the unit of production method based on total estimated proven recoverable reserves. Natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative energy content. Proceeds on sale of properties are credited to asset costs. The net book value of oil and gas properties, plant and equipment does not exceed the estimated present worth value of future net revenues from proven reserves plus the lower of cost or estimated fair value of unproved properties.

Oil and gas production equipment and related facilities are depreciated over their estimated useful service life on the straight-line method at various rates, the application of which is equivalent to a composite rate of approximately 7.78% in 1985 (7.72% in 1984, 7.77% in 1983).

Mineral resources

Mineral resources properties are carried at cost. Exploration costs are written off in the year incurred. When a property is determined to be economic, all subsequent costs are deferred and amortized against related production over a period not exceeding forty years.

Deferred gas revenues

Deferred gas revenues represent payments received under take-or-pay gas contracts. These amounts are included in revenue as the gas to which the payments relate is delivered at the purchaser's option. Deliveries, which are to be made over a ten year period, commenced November, 1984.

Earnings per ordinary share

Earnings per ordinary share have been calculated using the weighted monthly average number of ordinary shares outstanding during the year (53,296,000 in 1985, 56,205,000 in 1984, 54,683,000 in 1983). Fully diluted earnings per ordinary share assumes the exercise of all rights to acquire ordinary shares which have a dilutive effect.

Consolidated statement of income

Years ended December 31, 1985, 1984 and 1983. (thousands of dollars)

	1985	1984	1983
Sales and other revenues			
Oil and gas	**$575,130**	$514,431	$429,826
Mineral resources	**45,993**	44,983	20,857
Investment and other revenues	**44,759**	10,844	1,940
	665,882	570,258	452,623
Costs and expenses			
Production, operations and administration	**125,882**	105,824	96,073
Production revenue taxes (Note 10)	**54,310**	60,023	49,467
Product purchases	**84,445**	54,044	47,284
Depreciation and depletion	**84,106**	78,538	62,183
Interest on long-term debt	**51,960**	50,616	42,008
Other financial expense	**18,053**	16,302	18,966
Income taxes (Note 10)	**125,847**	120,757	78,107
Minority interests in subsidiaries	**1,610**	1,651	1,633
	546,213	487,755	395,721
Income from continuing operations	**119,669**	82,503	56,902
Earnings of gas utilities (Note 2)		21,799	21,464
Net income	**$119,669**	$104,302	$ 78,366
Dividends on preference shares	**$ 11,714**	$ 11,723	$ 2,218
Income applicable to ordinary shares	**$107,955**	$ 92,579	$ 76,148
Earnings per ordinary share			
Basic	**$ 2.03**	$ 1.65	$ 1.39
Fully diluted	**$ 1.95**	$ 1.62	$ 1.38

Consolidated balance sheet

As at December 31, 1985 and 1984.
(thousands of dollars)

Assets	1985	1984
Current assets		
Cash		$ 11,774
Accounts receivable	**$ 178,964**	151,281
Receivable on sale of gas utilities (Note 2)		163,000
Inventories, at cost	**9,899**	6,801
Total current assets	**188,863**	332,856
Investments (Note 4)	**688,500**	368,815
Properties, plant and equipment (Note 5)	**1,297,639**	1,125,112
Other assets	**16,332**	23,129
	$2,191,334	$1,849,912
Liabilities		
Current liabilities		
Bank indebtedness	**$ 8,156**	
Demand bank credits (Note 6)	**121,248**	$ 180,111
Accounts payable and accrued charges	**152,671**	111,878
Income and other taxes	**42,656**	87,960
Current maturities on long-term debt	**19,673**	8,594
Total current liabilities	**344,404**	388,543
Long-term debt (Note 7)	**738,488**	335,074
Deferred gas revenues	**49,969**	52,246
Total liabilities	**1,132,861**	775,863
Deferred income taxes	**293,386**	273,571
Minority interests in subsidiaries	**14,580**	13,246
Shareholders' equity		
Capital stock (Note 8(a) and 9)		
Issued		
First preference shares		
844 $1.06 cumulative redeemable series A (860 in 1984)	**21**	22
55,013 $1.50 cumulative redeemable series B (61,724 in 1984)	**1,375**	1,543
Junior preference shares		
85, 817 non-cumulative convertible redeemable 1981 series	**4,291**	4,291
5,999,900 7¾% cumulative convertible redeemable 1983 series	**147,178**	147,178
113,300 non-cumulative convertible redeemable Series B	**5,665**	5,665
Ordinary shares		
27,136,235 voting (28,063,575 in 1984)	**132,471**	136,841
21,580,259 non-voting (28,274,898 in 1984)	**108,384**	140,152
Retained earnings (Note 8(b))	**351,122**	351,540
Total shareholders' equity	**750,507**	787,232
	$2,191,334	$1,849,912

Consolidated statement of retained earnings

Years ended December 31, 1985, 1984 and 1983.
(thousands of dollars)

	1985	1984	1983
Balance at beginning of year	**$351,540**	$287,047	$238,084
Net income	**119,669**	104,302	78,366
	471,209	391,349	316,450
Dividends			
First preference shares			
series A	**1**	1	1
series B	**88**	97	116
Junior preference shares			
1979 series			1,132
1983 series	**11,625**	11,625	969
Ordinary shares			
voting	**13,920**	14,018	13,583
non-voting	**13,013**	14,068	13,583
Cost of shares purchased for cancellation in excess of average issue price	**81,440**		19
	120,087	39,809	29,403
Balance at end of year	**$351,122**	$351,540	$287,047

Approved by the Board:

Director

Director

Auditors' Report
To the Shareholders of
Norcen Energy Resources Limited

We have examined the consolidated balance sheet of Norcen Energy Resources Limited as at December 31, 1985 and 1984 and the consolidated statements of income, retained earnings and changes in financial position for each of the years in the three year period ended December 31, 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1985 in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell

Chartered Accountants

Calgary, Canada
January 31, 1986
(February 11, 1986 as to Note 9)

Consolidated statement of changes in financial position

Years ended December 31, 1985, 1984 and 1983.
(thousands of dollars)

	1985	1984	1983
Cash internally generated			
Income from continuing operations	**$ 119,669**	$ 82,503	$ 56,902
Add: non-cash items			
Depreciation and depletion	**84,106**	78,538	62,183
Deferred income taxes	**18,997**	35,147	45,639
Other items	**6,149**	4,416	(459)
Dividends from gas utilities		13,939	17,621
Cash generated from operations	**228,921**	214,543	181,886
Deferred gas revenues	**(2,277)**	6,184	5,598
Proceeds from sale of gas utilities	**163,000**		
Sale of oil and gas properties	**29,796**		23,494
Investments			49,693
Decrease in working capital*		44,881	
Other	**8,141**		
Total cash generated	**427,581**	265,608	260,671
Dividends paid	**38,647**	39,809	29,384
Net cash available	**388,934**	225,799	231,287
Cash invested			
Expenditures on properties, plant and equipment, net	**285,572**	155,350	130,026
Investment in Partnership with Gulf Canada Limited ("Gulf Partnership")	**300,288**		
Acquisition of mineral resource assets			320,398
Investments	**18,905**	35,952	
Purchase of ordinary shares	**120,344**		
Increase in working capital*	**33,990**		26,001
Other		4,323	3,140
	759,099	195,625	479,565
Excess (deficiency) of cash before external financing	**(370,165)**	30,174	(248,278)
External financing, net			
Demand bank credits	**(58,863)**	83,807	(95,185)
Long-term debt	**406,501**	(132,164)	209,706
Preference and ordinary shares	**2,597**	9,278	149,345
	350,235	(39,079)	263,866
Increase (decrease) in cash	**(19,930)**	(8,905)	15,588
Cash position at beginning of year	**11,774**	20,679	5,091
Cash position at end of year	**$ (8,156)**	$ 11,774	$ 20,679

*Working capital excludes cash, demand bank credits, current maturities on long term debt and cash proceeds from the sale of gas utilities operations.

(Tabular amounts are in thousands of dollars except where noted)

Note 1
Accounting policies
The information on page 30 presents a summary of the principal accounting policies and is an integral part of these consolidated financial statements.

Note 2
Sale of gas utilities
Norcen sold to Inter-City Gas Corporation, effective September 30, 1984, all of the common shares of its wholly-owned subsidiary, Northern and Central Gas Corporation Limited (''N&C''), for $163 million cash and $77 million of 8% first preference shares of Inter-City Gas Corporation. The sale, which closed on January 25, 1985, resulted in the disposal of Norcen's gas utilities operations in Ontario and Manitoba.

Norcen has accounted for its investment in N&C on an equity basis for all periods prior to October 1, 1984, and on the cost basis thereafter.

Summarized operating results of gas utilities operations are as follows:

	Years ended December 31	
	1984	1983
Gross revenues	$748,592	$723,878
Costs and expenses	723,391	699,784
Income	$ 25,201	$ 24,094
Norcen's equity in earnings	$ 21,799(i)	$ 21,464
Equity in earnings per ordinary share		
Basic	$ 0.39	$ 0.40
Fully diluted	0.34	0.38

(i) Includes the gain on sale of gas utilities operations of $5,152,000 after deferred income taxes of $17,522,000.

Note 3
Acquisition of mineral resources assets
On July 28, 1983, Norcen acquired, through a series of transactions, substantially all of the natural resource and related assets of Hollinger Argus Limited and Labrador Mining and Exploration Company Limited (''Labrador Mining'') except its 36% interest in Norcen which was, in effect, transferred to a newly incorporated company, Labmin Resources Limited.

The principal assets acquired by Norcen were a 10.47% common share interest in Iron Ore Company of Canada, a royalty interest in lands being mined by the Iron Ore Company of Canada, a gold mining royalty and a note payable by Brascan Limited. The consideration paid by Norcen was cash of $9,223,000 and the assumption of debt of Labrador Mining of $315,046,000. The purchase consideration was assigned as follows:

Cash	$ 3,871
Other working capital	4,154
Investments	118,966
Mineral resources properties	194,062
Other assets	6,741
	327,794
Deduct	
Deferred income taxes	3,525
Purchase consideration	$324,269

(Tabular amounts are in thousands of dollars except where noted)

Note 4
Investments

December 31	1985	1984
(a) At Equity:		
Coleman Collieries Limited Shares	**$ 2,215**	$ 2,637
At Cost:		
Gulf Partnership		
Partnership interest (Note 4(c))	**300,288**	
M. A. Hanna Company ("Hanna") Shares (quoted market 1985 – $90,247,000; 1984 – $75,733,000) (Note 4(b))	**146,511**	146,511
Inter-City Gas Corporation (Note 2)		
Shares – preference(i)	**77,000**	77,000
Brascan Limited		
Note		61,786
Shares – preference(ii)	**65,000**	
Iron Ore Company of Canada Shares	**53,310**	53,310
Northern and Central Gas Corporation Limited (Note 2)		
Shares – preference	**6,565**	8,530
Bonds – first mortgage	**20,864**	
Long-term notes receivable	**10,208**	10,294
Other investments	**6,539**	8,747
	$688,500	$368,815

Dividend and interest income received from investments carried at cost was $24,914,000 in 1985 ($23,149,000 in 1984; $6,066,000 in 1983).

Dividend income of $11,050,000 in 1985 ($12,305,000 in 1984; $4,126,000 in 1983) is included in mineral resource revenues. The balance of the dividend and interest income is included in Investment and other revenues.

(i) These shares cannot be sold without the consent of the issuer.

(ii) In May, 1985, the Brascan Limited Note was redeemed and the proceeds together with $3,214,000 cash were used to acquire Brascan Limited preference shares.

(b) Hanna

In June, 1984, Norcen increased its share interest in Hanna from 20% to 28.15% by purchasing 1,151,609 common shares at U.S. $23 per share. An agreement with Hanna entitles Norcen to nominate four directors to Hanna's board of directors and, subject to certain exceptions, Norcen has agreed not to increase its common share interest in Hanna before 1992. These exceptions include rights of Norcen to maintain its permitted percentage ownership and to respond to offers by others for Hanna shares under stated conditions.

(c) Gulf Partnership

On August 31, 1985, Norcen entered into a partnership arrangement with Gulf Canada Limited ("Gulf") pursuant to which all of Gulf's upstream assets (except for BeauDril Limited, a wholly-owned subsidiary involved in Beaufort Sea exploration) together with the assets of Superior Propane Limited (a wholly-owned subsidiary of Gulf) and Gulf's Edmonton refinery were combined with Norcen's contribution to the partnership of $300 million cash. Norcen's interest in the partnership is 5.97%.

Norcen will withdraw from the partnership on March 1, 1986. As a result, Norcen will acquire all or part of the partnership's interest in five oil and gas producing fields in Alberta, the assets of Superior Propane Limited and partnership's interest in three offshore East Coast areas.

Included in investment and other revenues is Norcen's share of partnership profits of $13,956,000 for the four months ended December 31, 1985.

Note 5
Properties, plant and equipment

	Oil and gas	Mineral resources	Total
December 31, 1985			
Cost	**$1,599,009**	**$233,388**	**$1,832,397**
Accumulated depreciation and depletion	**515,174**	**19,584**	**534,758**
Net	**$1,083,835**	**$213,804**	**$1,297,639**
December 31, 1984			
Cost	$ 1,343,590	$ 233,049	$ 1,576,639
Accumulated depreciation and depletion	438,558	12,969	451,527
Net	$ 905,032	$ 220,080	$ 1,125,112

thousands of dollars

From 1981 to 1984 through the period of the National Energy Program which provided for a contractual pricing structure for oil and gas production, Norcen depleted its oil and gas assets on the net production revenue method based on the total estimated future production revenues from proven recoverable reserves. As a result of the March 28, 1985, Western Accord Agreement between the provincial and federal governments which provided for the deregulation of oil pricing commencing June 1, 1985, and future deregulation of gas market pricing, Norcen, effective January 1, 1985, reverted to the unit of production method of depletion which had been the method used prior to 1981. The effect of this change is not significant to the current year's results.

Note 6
Demand bank credits
Norcen has the following obligations under established bank lines of credit of $210,500,000 at December 31, 1985, ($195,750,000 at December 31, 1984):

	Average % rate of interest at December 31		December 31	
	1985	1984	**1985**	1984
Commercial paper	**9.1**	10.7	**$ 70,902**	$160,000
Bankers' acceptances		10.9		15,000
Bank loans – unsecured	**10.0**	11.3	**27,294**	5,111
Bank loans – secured	**10.0**		**652**	
Eurodollar advance (U.S. $16,000)	**8.6**		**22,400**	
			$121,248	$180,111
Unused lines of credit at period end			**$ 89,252**	$ 15,639

Note 7
Long-term debt

	1985	1984
10¼%–11¼% secured notes, 1988	**$ 26,400**	$ 33,660
Term bank credits, 1988-1994 (Note 9)	**518,800**	121,440
12½%–13¼% debentures, 1993-2003	**137,168**	115,000
11¼% secured debentures, 1996	**24,459**	26,090
7.6% subordinated note, 1999	**47,300**	47,300
Other	**4,034**	178
	758,161	343,668
Current maturities on long-term debt	**19,673**	8,594
	$738,488	$335,074

Lines of term bank credits, established with three Canadian banks, amounting to $128,800,000 as at December 31, 1985, ($121,440,000 at December 31, 1984) provide on maturity in 1986 for semi-annual principal repayments to retire the loans in 1994. Additional lines of term bank credits established on August 30, 1985, with the three Canadian banks amounting to $300,000,000 and $90,000,000 mature August 31, 1987, (and may be extended at the borrower's option into a term loan with semi-annual principal repayments to retire the loan in 1993) and August 31, 1988, respectively.

The average annual costs of indebtedness under these lines of term bank credits for 1985, 1984 and 1983 were 9.5%, 11.7%, and 10.6% respectively, and the amounts outstanding at December 31, were:

	1985	1984
Advances	**$100,000**	
Commercial paper	**90,000**	
Bankers' acceptances	**200,000**	
Eurodollar advances (U.S. $92,000)	**116,828**	$116,828
Deferred foreign exchange loss	**11,972**	4,612
	$518,800	$121,440

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1986 are as follows: 1987 – $29,432,000; 1988 – $171,145,000; 1989 – $76,473,000; 1990 – $98,165,000.

(Tabular amounts are in thousands of dollars except per share amounts)

Note 8
Shareholders' equity

(a) Capital stock
The authorized capital stock of Norcen at December 31, 1985, consists of 1,300,000 first preference shares without par value issuable in series; unlimited second and junior preference shares without par value issuable in series and unlimited voting and non-voting ordinary shares without par value. The maximum consideration for the issuance of first preference shares is $132,500,000.

The two classes of ordinary shares rank equally with each other and after all preference shares of Norcen with respect to priority on the payment of dividends. At the holder's option voting ordinary shares are convertible into non-voting ordinary shares, on a one-for-one basis, at any time. Non-voting ordinary shares are convertible into voting ordinary shares, on a one-for-one basis, only in certain limited circumstances.

First Preference Shares, Series A and Series B (redeemable at Norcen's option at $27.50 and $26.50 per share, respectively) have voting rights.

The Convertible Junior Preference Shares, 1981 Series which were issued to senior executives pursuant to the terms of the Preference Share Incentive Plan, are non-voting, pay no dividend and each becomes convertible into approximately 1.66 voting ordinary shares and 1.66 non-voting ordinary shares at the rate of 25% of the issue after each of the first four years. The preference shares are automatically redeemed at $50.00 per share after eight years or earlier in accordance with certain provisions of the plan.

The 7¾% Convertible Junior Preference Shares, 1983 Series were issued on December 1, 1983. These shares are non-voting and each is convertible at the option of the holder at any time up to the close of business on December 1, 1990, into approximately 1.28 non-voting ordinary shares. The Convertible Junior Preference Shares, 1983 Series will be redeemable on or after December 1, 1986, subject to certain restrictions and without restriction on or after December 1, 1988, at Norcen's option in whole or in part at any time at a price of $26.00, such price declining by $0.25 per annum until December 1, 1990, after which they are redeemable at the issue price of $25.00 per share.

The Convertible Junior Preference Shares, Series B were issued on February 8, 1984, to senior executives pursuant to the terms of the Preference Share Incentive Plan. The Convertible Junior Preference Shares, Series B are identical to the Convertible Junior Preference Shares, 1981 Series in all respects except that each becomes convertible into approximately 3.19 non-voting ordinary shares.

Changes in Norcen's ordinary and junior preference share capital during the three years ended December 31, 1985, are as follows:

	Ordinary Shares	
	Voting	
	Number of shares	Amount
December 31, 1982	26,737,451	$119,064
Issued for cash		
Preference shares		
Employee savings and investment plan	64,844	1,056
Incentive stock option plan	28,745	
Ordinary stock dividends	16,987	279
Redeemed		
Converted		
Preference shares	1,164,332	15,981
Purchased for cancellation	(24)	
December 31, 1983	28,012,335	136,380
Issued for cash		
Preference shares		
Employee savings and investment plan		
Incentive stock option plan	25,759	
Ordinary stock dividends	25,873	463
Exchanged	(392)	(2)
Converted		
Preference shares		
December 31, 1984	28,063,575	136,841
Issued for cash		
Employee savings and investment plan		
Ordinary stock dividends	13,714	222
Exchanged	(521)	(2)
Purchased for cancellation	(940,533)	(4,590)
December 31, 1985	**27,136,235**	**$132,471**

In addition, Norcen redeemed first preference shares during the three years ended December 31, 1985, as follows:

	Series A		Series B	
	Number of Shares	Amount	Number of Shares	Amount
1983	525	$13	14,036	$351
1984	50	1	6,464	162
1985	**16**	**1**	**6,711**	**168**

(Tabular amounts are in thousands of dollars except per share amounts)

		Junior Preference Shares							
Non-Voting		1979 Series		1981 Series		1983 Series		Series B	
Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
26,737,451	$119,063	655,881	$32,138	94,248	$4,712				
						6,000,000	$147,180		
92,811	1,511								
28,745									
16,987	280								
		(6,650)	(326)	(5,420)	(271)				
1,164,332	15,981	(649,231)	(31,812)	(3,011)	(150)				
(24)									
28,040,302	136,835			85,817	4,291	6,000,000	147,180		
								113,300	$5,665
180,613	2,851								
25,759									
27,704	462								
392	2								
128	2					(100)	(2)		
28,274,898	140,152			85,817	4,291	5,999,900	147,178	113,300	5,665
156,859	2,223								
21,901	321								
521	2								
(6,873,920)	(34,314)								
21,580,259	**$108,384**			**85,817**	**$4,291**	**5,999,900**	**$147,178**	**113,300**	**$5,665**

Voting and non-voting ordinary shares may be issued as follows:

	Voting	Non-Voting
Conversion of junior preference shares	142,500	8,196,221
Incentive stock option plan, of which market growth options were outstanding at December 31, 1985, on: 30,125 of each of the voting and non-voting ordinary shares at a combined exercise price of $30.125 expiring in 1986; and 105,000 non-voting ordinary shares at an exercise price of $15.6875 expiring in 1988	30,125	135,125

(b) Dividend restrictions

Covenants respecting certain of Norcen's long-term debt impose a limit on dividend payments by Norcen, such limit being related in part to consolidated net income, as defined. Under the most restrictive of these covenants, retained earnings in the amount of $243 million were available for the payment of dividends at December 31,1985.

(Tabular amounts are in thousands of dollars except where noted)

Note 9
Subsequent event
Pursuant to an agreement dated January 21, 1986, Norcen sold $100 million 8.12% Second Preference Shares, Series A. The sale closed on February 11, 1986. Net proceeds of $97 million were applied to reduce term bank credits in the amount of $90 million and to reduce demand bank credits in the amount of $7 million. The shares are retractable on March 1, 1992, and are redeemable thereafter.

Note 10
Taxes
Production revenue taxes include the following amounts:

	Year ended December 31		
	1985	1984	1983
Petroleum and gas revenue tax and incremental oil revenue tax	**$47,910**	$54,051	$46,709
Newfoundland royalty tax	**$ 6,400**	$ 5,972	$ 2,758

Deferred income taxes result from timing differences in the recognition of income and expenses for income tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	Year ended December 31		
	1985	1984	1983
Exploration and development expenditures and capital cost allowances deducted for income tax purposes in excess of depletion and depreciation	**$16,289**	$33,345	$39,239
Other items, net	**2,708**	1,802	6,400
	$18,997	$35,147	$45,639

Deferred income taxes on the gain on sale of gas utilities were $17,522,000 in 1984.

The provision for income taxes in the consolidated statement of income varies from the amounts that would be computed by applying the Canadian federal statutory rate of 46% to income from continuing operations before income taxes and minority interests for the following reasons:

	Year ended December 31		
	1985	1984	1983
Income from continuing operations before income taxes and minority interests	**$247,126**	$204,911	$136,642
Canadian federal statutory rate of income tax	**46.0%**	46.0%	46.0%
Computed income tax expense	**$113,678**	$ 94,259	$ 62,855
Increase (decrease) in income taxes resulting from:			
Non-deductible production revenue taxes	**20,484**	24,035	19,018
Non-deductible crown payments less federal resource allowance	**2,844**	6,288	6,492
Provincial income taxes in excess of federal abatement	**5,589**	4,759	1,973
Non-taxable dividend income	**(9,262)**	(7,785)	(2,632)
Income tax depletion	**(1,685)**	(1,545)	(7,248)
Other items, net	**(5,801)**	746	(2,351)
Actual income tax expense	**$125,847**	$120,757	$ 78,107
Effective tax rate	**50.9%**	58.9%	57.2%

Note 11
Pension plans and other benefits
Norcen has a defined benefit pension plan covering most employees. Current costs are provided for, and funded, based upon actuarial estimates. There are no unfunded liabilities for past service pension benefits.

During 1985, as a result of having surplus funds in several of its employee benefit plans beyond that necessary to meet its future liability obligations and the requirements of the regulatory authorities, the Company withdrew $16,939,000 of these surpluses which amount is reflected in Investment and other revenues. At December 31, 1985, the assets of the Company's pension plan substantially exceeded the liabilities of the plan.

(Tabular amounts are in thousands of dollars except where noted)

Note 12
Financial data by business segment

	Year ended December 31		
	1985	1984	1983
Oil and gas			
Sales and other revenues	**$ 575,130**	$ 514,431	$ 429,826
Operating costs	**252,515**	208,623	187,646
Depreciation and depletion	**77,451**	73,303	59,950
	329,966	281,926	247,596
Operating income	**$ 245,164**	$ 232,505	$ 182,230
Mineral resources			
Sales and other revenues	**$ 45,993**	$ 44,983	$ 20,857
Operating costs	**12,122**	11,268	5,178
Depreciation and depletion	**6,655**	5,235	2,233
	18,777	16,503	7,411
Operating income	**$ 27,216**	$ 28,480	$ 13,446
Consolidated total			
Operating income			
Oil and gas	**$ 245,164**	$ 232,505	$ 182,230
Mineral resources	**27,216**	28,480	13,446
	272,380	260,985	195,676
Investment and other revenues	**44,759**	10,844	1,940
	317,139	271,829	197,616
Interest and other financial expense	**70,013**	66,918	60,974
Income taxes	**125,847**	120,757	78,107
Minority interests	**1,610**	1,651	1,633
	197,470	189,326	140,714
Income from continuing operations	**119,669**	82,503	56,902
Earnings of gas utilities		21,799	21,464
Net income	**$ 119,669**	$ 104,302	$ 78,366
Capital expenditures			
Oil and gas (i)	**$ 285,210**	$ 155,308	$ 129,584
Mineral resources	**362**	42	442
	$ 285,572	$ 155,350	$ 130,026
Identifiable assets			
Oil and gas	**$1,280,660**	$1,088,026	$ 996,111
Mineral resources	**430,749**	441,276	428,306
Investments	**479,925**	320,610	278,320
	$2,191,334	$1,849,912	$1,702,737

(i) Net of government incentive payments of $86,071,000 in 1985; $87,436,000 in 1984; and $89,868,000 in 1983.

Note 13
Suncor litigation status
On January 21, 1985, the Court of Queen's Bench of Alberta rendered its decision adverse to Norcen, in the matter of the royalty payments received or receivable from Suncor. Norcen has accounted for its royalty interest in accordance with this decision. Norcen appealed to the Court of Appeal of Alberta which appeal was held in December, 1985. The decision of the appelate court is anticipated in early 1986. In the event of a successful appeal and no subsequent appeal by Suncor Inc., Norcen would record, as an adjustment to opening retained earnings in 1986, cumulative earnings of approximately $32.2 million net of revenue taxes and income taxes.

Note 14
United States accounting principles
Norcen follows Canadian accounting principles which are different in some respects from those applicable in the United States and from practices prescribed by the United States Securities and Exchange Commission ("SEC"). These differences would have affected income from continuing operations as follows:

(Tabular amounts are in thousands of dollars except where noted)

	Year ended December 31		
	1985	1984	1983
Income from continuing operations based on Canadian accounting principles	**$119,669**	$ 82,503	$ 56,902
Prior period adjustment regarding the Suncor litigation (i)		(24,338)	3,548
Foreign currency translation adjustment on long-term debt (ii)	**(2,265)**	(5,766)	(601)
Application of SEC prescribed full cost method net of related deferred income taxes (iii)	**1,437**	2,024	4,150
Amortization of excess cost of minority shares in 1975 reorganization (iv)	**(713)**	(607)	(668)
Amortization of surplus funds withdrawn from employee benefit plans (v)	**(6,943)**		
Income from continuing operations based on United States accounting principles	**$111,185**	$ 53,816	$ 63,331
Earnings from continuing operations per ordinary share Canadian	**$ 2.03**	$ 1.26	$ 0.99
United States	**$ 1.87**	$ 0.75	$ 1.12

(i) Under Canadian accounting principles the outcome of the Suncor litigation involving royalties received or receivable dating back to 1979 was recorded as a prior period adjustment in 1984. However, under United States accounting principles, the entire adjustment would have been reflected in current income.
(ii) Effective January 1, 1984, Norcen defers and amortizes, over the term of the debt, the gain or loss on the translation of the non-current portion of long-term debt in foreign currencies at the rate of exchange in effect at year end (See Accounting Policies – Foreign currency translation). Under United States accounting principles the entire gain or loss on translation of the long-term debt would be charged to income.
(iii) Norcen accounts for its exploration and development expenditures under the full cost method on a world-wide basis. This adjustment reflects the country-by-country full cost method prescribed by the SEC.
(iv) A corporate reorganization in 1975 was accounted for in the manner of a pooling of interests. Under United States accounting principles, it would have been accorded purchase accounting treatment. Accordingly, the cost of the minority shares over their underlying book value of $16,900,000 would have been included in properties, plant and equipment.
(v) During 1985, Norcen included in income, surplus funds withdrawn from its employee benefit plans beyond that necessary to meet its future pension obligations. This adjustment amortizes the withdrawal over 10 years.

The cumulative effect of the application of the above noted United States accounting principles on retained earnings would be as follows:

	Year ended December 31		
	1985	1984	1983
Retained earnings based on Canadian accounting principles	**$351,122**	$351,540	$287,047
Prior period adjustment in 1984 in regard to the Suncor litigation			24,338
Write-off of unrealized exchange losses on long-term debt	**(9,612)**	(7,347)	(1,581)
Application of SEC full cost method	**(23,840)**	(25,277)	(27,301)
Amortization of excess cost of minority shares in 1975 reorganization	**(8,199)**	(7,486)	(6,879)
Amortization of surplus funds withdrawn from employee benefit plans	**(6,943)**		
Other (i)	**(20,920)**	(20,920)	(20,920)
Retained earnings based on United States accounting principles	**$281,608**	$290,510	$254,704

(i) Cumulative effect of income accruing to the minority interests prior to the date of the 1975 reorganization, net of the excess cost of the minority shares, would not have been credited to retained earnings.

Pursuant to United States generally accepted accounting principles the Convertible Junior Preference Shares, 1981 Series and Series B in the amount of $9,956,000 in 1985 and 1984 and $4,291,000 in 1983, would have been reclassified from shareholders' equity to non-current liabilities. The amounts receivable from officers and directors for the purchase of these shares in the amounts of $9,956,000, $9,956,000 and $4,291,000 at December 31, 1985, 1984 and 1983, respectively, would be reclassified as a deduction from these non-current liabilities.

Supplemental information
(unaudited)

(Tabular amounts are in thousands of dollars except per share amounts)

Quarterly and other financial data

	Quarter				Year
	First	Second	Third	Fourth	
1985					
Sales and other revenues	**$159,957**	**$156,119**	**$151,343**	**$198,463**	**$665,882**
Net Income	**$ 28,055**	**$ 29,006**	**$ 24,692**	**$ 37,916**	**$119,669**
Earnings per ordinary share					
Basic (i)	**$ 0.45**	**$ 0.47**	**$ 0.41**	**$ 0.72**	**$ 2.03**
Fully diluted (i)	**0.44**	**0.46**	**0.41**	**0.67**	**1.95**
Dividends paid per ordinary share (ii)	**$ 0.125**	**$ 0.125**	**$ 0.125**	**$ 0.125**	**$ 0.50**
Market price per share (iii)					
Voting ordinary					
High	**$ 16½**	**$ 17⅜**	**$ 16¾**	**$ 16¾**	
Low	**14**	**14⅝**	**12¾**	**14⅜**	
Non-voting ordinary					
High	**$ 15⅜**	**$ 16**	**$ 15¾**	**$ 15⅝**	
Low	**12⅝**	**13¼**	**11⅞**	**13¾**	
1984					
Sales and other revenues	$ 141,852	$ 131,153	$ 136,226	$ 161,027	$ 570,258
Net income	$ 38,607	$ 22,753	$ 7,971	$ 34,971	$ 104,302
Earnings per ordinary share					
Basic	$ 0.64	$ 0.35	$ 0.09	$ 0.57	$ 1.65
Fully diluted (i)	0.60	0.35	0.09	0.54	1.62
Dividends paid per ordinary share (ii)	$ 0.125	$ 0.125	$ 0.125	$ 0.125	$ 0.50
Market price per share (iii)					
Voting ordinary					
High	$ 18⅛	$ 20	$ 19¼	$ 19½	
Low	15⅞	16⅜	14¾	15	
Non-voting ordinary					
High	$ 16⅝	$ 18½	$ 17⅜	$ 18¼	
Low	14⅝	14¾	13⅝	13¾	

(i) The sum of quarterly earnings per share for the year does not equal earnings per share for the year due to the effect on average outstanding shares of the purchase for cancellation in 1985 of voting and non-voting ordinary shares and, in 1984, due to the anti-dilutive effect of fully diluted earnings in the third quarter.

(ii) Generally United States residents are subject to a 15% withholding tax.

(iii) The market prices are as reported by The Toronto Stock Exchange, which is the principal market of the ordinary shares of Norcen. There is no established public trading market in the United States.

Oil and gas information

The following unaudited supplementary information is disclosed in accordance with the provisions of the Financial Accounting Standards Board ("FASB") Statement No. 69 "Disclosures about Oil and Gas Producing Activities".

Exploration and production activities

Norcen has capitalized property acquisition, exploration and development costs pertaining to its Canadian and foreign oil and gas operations as follows:

December 31	1985	1984
Properties		
Canada		
proven	**$ 901,382**	$ 867,742
unproven	**99,396**	60,664
Foreign (i)		
proven	**215,838**	111,459
unproven	**27,725**	13,813
Production equipment	**250,570**	214,522
	1,494,911	1,268,200
Accumulated depreciation, depletion and amortization	**466,911**	393,973
Capitalized costs	**$1,028,000**	$ 874,227

(i) Principal areas of spending have been in Australia and the United States.

(Tabular amounts are in thousands of dollars except where noted)

The following table presents information on Norcen's oil and gas property acquisition, exploration and development activities.

Costs capitalized in the year	Canada	Foreign	Total
1985			
Property acquisition	**$ 22,694**	**$ 74,391**	**$ 97,085**
Exploration (i)			
proven	**17,682**	**20,568**	**38,250**
unproven	**38,732**	**13,912**	**52,644**
Development (i)	**50,257**	**18,271**	**68,528**
Sale of oil and gas properties	**(29,796)**		**(29,796)**
Total capitalized	**$ 99,569**	**$127,142**	**$226,711**
1984			
Property acquisition	$ 15,869	$ 6,913	$ 22,782
Exploration (i)			
proven	46,732	28,012	74,744
unproven	8,783	2,587	11,370
Development (i)	32,678	4,738	37,416
Total capitalized	$ 104,062	$ 42,250	$ 146,312
1983			
Property acquisition	$ 20,068	$ 2,970	$ 23,038
Exploration (i)			
proven	40,283	(11,261)	29,022
unproven	19,442	(782)	18,660
Development (i)	35,702	(2,249)	33,453
Total capitalized	$ 115,495	$ (11,322)	$ 104,173

(i) Exploration and development costs in Canada are shown net of government incentive payments earned of $86,071,000 in 1985 ($87,436,000 in 1984, and $89,868,000 in 1983).

Net revenues from producing oil and gas	Canada	Foreign	Total
1985			
Gross revenue	**$514,604**	**$ 19,557**	**$534,161**
Production expenses (i)	**235,903**	**3,474**	**239,377**
Depreciation, depletion and amortization expense (ii)	**59,114**	**13,824**	**72,938**
	219,587	**2,259**	**221,846**
Income tax expense	**104,135**		**104,135**
Results of operations from producing activities (excluding corporate overhead and interest costs)	**$115,452**	**$ 2,259**	**$117,711**
1984			
Gross revenue	$ 540,912	$ 2,910	$ 543,822
Production expenses (i)	248,417	898	249,315
Depreciation, depletion and amortization expense (ii)	60,966	4,363	65,329
	231,529	(2,351)	229,178
Income tax expense	129,524		129,524
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 102,005	$ (2,351)	$ 99,654
1983			
Gross revenue	$ 465,620	$ 2,618	$ 468,238
Production expenses (i)	219,491	1,140	220,631
Depreciation, depletion and amortization expense (ii)	51,960	5,880	57,840
	194,169	(4,402)	189,767
Income tax expense	107,773		107,773
Results of operations from producing activities (excluding corporate overhead and interest costs)	$ 86,396	$ (4,402)	$ 81,994

(i) Production expenses include oil and gas operating expenses, production revenue taxes as well as freehold and crown royalty payments of $124,096,000 in 1985 ($153,323,000 in 1984; $122,644,000 in 1983).

(ii) Depletion expense per equivalent barrel was $2.80, $2.51, and $2.33 in 1985, 1984 and 1983, respectively.

Reserves as determined by Company engineers are stated on a before royalty basis and include proven remaining reserves together with probable additional reserves reduced by a risk factor, all in accordance with Canadian practice.

The reserve information provided below, as determined by independent reservoir engineers, McDaniel & Associates Consultants Ltd., is provided on a proven reserve basis only after deducting royalty interests of governments and others. All of Norcen's proven reserves are developed. The reserve quantity information summarizes the changes in quantities of net proven Canadian oil and gas reserves determined using constant prices and costs. Such quantities vary from reserves determined by company engineers primarily due to timing differences in making reserve estimates.

Year ended December 31	**1985**		1984		1983	
	liquids (000s bbls)	gas (mmcf)	liquids (000s bbls)	gas (mmcf)	liquids (000s bbls)	gas (mmcf)
Beginning of year	**70,493**	**652,174**	73,139	665,594	73,473	696,889
Revisions of previous estimates	**3,138**	**(9,633)**	5,826	7,618	5,668	(17,208)
Extensions, discoveries and other additions	**1,429**	**11,994**	1,238	12,341	2,552	15,861
Production	**(8,756)**	**(33,391)**	(9,710)	(33,379)	(8,554)	(29,948)
End of year	**66,304**	**621,144**	70,493	652,174	73,139	665,594

Oil and gas liquids at the end of each year include 16.3, 17.3, and 18.2 million barrels in 1985, 1984, and 1983 respectively as Norcen's oil sands royalty interest. In addition to the reserves shown above, Norcen estimates that it has approximately 2.5 million net barrels of proved oil and 72.9 net bcf of proved natural gas in the United States. Estimated proved reserves in Australia are 2.5 million net barrels.

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

In calculating the standardized measure of discounted future net cash flows, prices and costs in effect at December 31, 1985 were assumed to be constant, were applied to proven reserves and provision was made for estimated future development expenditures that will be required to produce the reserves in Canada. Royalty deductions were based on laws, regulations and contracts existing at the end of the fiscal year. The discounted future net cash flows are derived by applying a 10% discount factor, as required by the FASB Statement No. 69 rules, to the future net cash flows. **Management believes that this information does not sufficiently reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to potential reserves, the use of a 10% discount rate is arbitrary and prices constantly change from year end levels.**

Year ended December 31	**1985**	1984	1983
	(millions of dollars)		
Future cash inflows	**$4,764**	$5,364	$5,584
Future production costs	**1,841**	2,624	2,808
Future development costs	**70**	60	60
Future income tax expense	**1,242**	1,434	1,478
Future net cash flows (undiscounted)	**$1,611**	$1,246	$1,238
Standardized measure of discounted future net cash flows	**$ 894**	$ 694	$ 649

The following table sets out principal sources of change in the standardized measure of discounted future net Canadian cash flows during the respective years:

Year ended December 31	**1985**	1984	1983
	(millions of dollars)		
Sales of oil and gas and value of transfers	**$(279)**	$(295)	$(253)
Net changes in prices and production costs			
conventional reserves	**215**	47	(11)
oil sands royalty	**49**	(36)	(22)
Extensions, discoveries and improved recovery, less related costs	**31**	30	55
Development costs incurred during the period	**10**	11	7
Revisions of previous quantity estimates and other	**(2)**	199	54
Accretion of discount	**69**	65	68
Net changes in income taxes	**107**	24	71
Net increase (decrease)	**200**	45	(31)
Beginning of year	**694**	649	680
End of year	**$ 894**	$ 694	$ 649

Year ended December 31

	1985	1984	1983	1982	1981
Income	(millions of dollars)				
Sales and other revenues					
Oil and gas	**$ 575.1**	$ 514.4	$ 429.8	$ 369.0	$ 262.6
Mineral resources	**46.0**	45.0	20.9	5.3	2.7
Investments	**44.8**	10.8	1.9		
	665.9	570.2	452.6	374.3	265.3
Costs and expenses					
Production, operations and administration	**125.9**	105.8	96.1	90.3	77.5
Production revenue taxes	**54.3**	60.0	49.4	40.5	18.1
Product purchases	**84.4**	54.0	47.3	41.4	34.3
Depreciation and depletion	**84.1**	78.5	62.2	44.9	33.9
Interest	**70.0**	66.9	61.0	57.4	35.8
Income taxes	**125.9**	120.8	78.1	48.2	35.9
Minority interests	**1.6**	1.7	1.6	1.6	0.6
	546.2	487.7	395.7	324.3	236.1
Income from continuing operations	**119.7**	82.5	56.9	50.0	29.2
Earnings of gas utilities		21.8	21.5	20.8	16.6
Income before extraordinary item	**$ 119.7**	$ 104.3	$ 78.4	$ 70.8	$ 45.8
Dividends on preference shares	**$ 11.7**	$ 11.7	$ 2.2	$ 2.1	$ 2.3
Income applicable to ordinary shares before extraordinary item	**$ 108.0**	$ 92.6	$ 76.2	$ 68.7	$ 43.5
Cash from operations	**$ 228.9**	$ 214.5	$ 181.9	$ 150.0	$ 105.0
Capital expenditures					
Oil and gas	**$ 285.2**	$ 155.3	$ 129.6	$ 134.0	$ 100.9
Mineral resources	**.4**	.1	0.4	27.7	
	$ 285.6	$ 155.4	$ 130.0	$ 161.7	$ 100.9
Ordinary shares (i)	(millions)				
Average number of outstanding	**53.3**	56.2	54.7	53.2	53.4
Number of shareholders	(thousands)				
voting	**14.9**	17.2	18.1	20.9	22.3
non-voting	**14.6**	17.1	18.7	20.9	22.3
Earnings per share	(dollars)				
(before extraordinary item)	**$ 2.03**	$ 1.65	$ 1.39	$ 1.29	$ 0.81
Dividends per share	**$ 0.50**	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Market price					
High	**$ 17.38**	$ 20.00	$ 20.50	$ 17.63	$ 17.13
Low	**$ 11.88**	$ 13.63	$ 14.06	$ 10.88	$ 10.50
Close					
voting	**$ 16.63**	$ 15.50	$ 17.13	$ 14.56	$ 13.44
non-voting	**$ 15.50**	$ 14.00	$ 16.13	$ 14.56	$ 13.44
Capitalization	(millions of dollars)				
Long term debt (excluding current maturities)	**$ 738.5**	$ 335.1	$ 457.6	$ 263.0	$ 142.9
Minority interests	**14.6**	13.2	11.6	7.9	6.3
Redeemable preference shares	**158.5**	158.7	153.2	38.9	42.6
Ordinary shareholders' equity	**592.0**	628.5	560.3	476.2	429.7
	$1,503.6	$1,135.5	$1,182.7	$ 786.0	$ 621.5
Assets					
Properties, plant and equipment	**$1,297.6**	$1,125.1	$1,048.1	$ 791.5	$ 674.3
Total assets	**$2,191.3**	$1,849.9	$1,702.7	$1,352.0	$1,063.2

(i) On the assumption that, prior to a change in share capital on November 4, 1983, each ordinary share was equivalent to one-half a common share.

	1985	1984	1983	1982	1981
Oil and gas					
Production (before royalties)					
	(thousands of barrels per day)				
Crude oil, synthetic crude oil and natural gas liquids	**33.5**	34.7	30.9	27.0	24.9
	(millions of cubic feet per day)				
Natural gas	**137.4**	130.7	119.3	137.8	131.9
	(thousands of long tons)				
Sulphur	**36.0**	42.0	34.0	44.0	39.3
	(millions of cubic feet per day)				
Gas gathering and transmission sales	**43.0**	45.9	46.0	45.8	48.2
	(thousands of barrels per day)				
Oil gathering and transmission throughput	**78.6**	84.6	81.2	77.1	63.2
	(millions of imperial gallons)				
Propane marketing	**93.5**	57.7	54.1	57.3	51.2
Reserves (before royalties)					
	(millions of barrels)				
Oil and gas liquids	**117.3**	115.8	117.5	114.3	119.7
	(billions of cubic feet)				
Natural gas	**1,112.9**	1,086.0	1,103.0	1,133.0	1,127.3
	(thousands of long tons)				
Sulphur	**391.0**	408.0	438.0	492.0	437.0
	(millions of gross acres)				
Oil and gas land holdings	**25.6**	27.9	21.5	23.1	23.6
	(millions of net acres)				
	4.8	5.1	4.6	5.4	5.9
Mineral resources (acquired in July, 1983) (i)					
Iron ore sales					
	(millions of tonnes)				
Pellets	**8.7**	6.8	6.3	6.1	11.6
Concentrates and other	**6.8**	7.5	6.8	7.4	9.6
	15.5	14.3	13.1	13.5	21.2
	(number)				
Employees at year-end	**1,200**	1,060	1,046	1,135	1,027

(i) Iron Ore Company of Canada production.
Norcen earns a royalty for each tonne sold.

Directors and officers

Directors

Robert F. Anderson [4]
Cleveland, Ohio
Chairman and
Chief Executive Officer,
M.A. Hanna Company
Chairman and
Chief Executive Officer,
Iron Ore Company of
Canada

Donald D. Barkwell
Calgary, Alberta
Executive Vice-President

Douglas G. Bassett [4]
Toronto, Ontario
President and
Chief Executive Officer,
Baton Broadcasting
Incorporated

Edward G. Battle [1]
Calgary, Alberta
President and
Chief Executive Officer

Conrad M. Black [1]
Toronto, Ontario
Chairman and
Chief Executive Officer,
Argus Corporation Limited

G. Montegu Black [1,3]
Toronto, Ontario
Vice-Chairman,
Argus Corporation Limited

Edmund C. Bovey, C.M. [1]
Toronto, Ontario
Director of
various companies

Dixon S. Chant [1,3]
Toronto, Ontario
President,
Argus Corporation Limited

E. Jacques Courtois, Q.C. [1]
Montreal, Quebec
Partner, Stikeman, Elliott,
Barristers and Solicitors

Robert Després, O.C. [3]
Quebec City, Quebec
Chairman, Atomic Energy
of Canada Limited

Fredrik S. Eaton [3,4]
Toronto, Ontario
Chairman, President and
Chief Executive Officer,
The T. Eaton Company
Limited

John R. Finlay, Q.C. [2]
Toronto, Ontario
President, Yorkborough
Investments Ltd.

Frederick A.M. Huycke, Q.C. [4]
Toronto, Ontario
Partner, Osler,
Hoskin & Harcourt,
Barristers and Solicitors

Richey B. Love, Q.C. [2]
Calgary, Alberta
Chairman and President,
Domequity Growth &
Calgary Ltd.

Hon. W. John McKeag [2]
Winnipeg, Manitoba
President,
McKeag Realty Ltd.

F. David Radler [2,3]
Vancouver,
British Columbia
President, Sterling
Newspapers Ltd.,
President and
Chief Executive Officer,
Dominion Stores Limited

John R. Yarnell [2]
Toronto, Ontario
President, Yarnell
Companies Limited

Officers

Conrad M. Black
Chairman of the Board

Edward G. Battle
President and
Chief Executive Officer

Donald D. Barkwell
Executive Vice-President

Barry D. Cochrane
Senior Vice-President

Paul H. Palmer
Senior Vice-President,
Administration and
Comptroller

Kenneth L. Colby
Vice-President,
Corporate Affairs

William C. Hennenfent
Vice-President,
Exploration

William T. Kilbourne
Vice-President,
Legal and Secretary

Wilfrid A. Loucks
Vice-President

Wayne M. Newhouse
Vice-President,
Production

Timothy G. Sheeres
Vice-President, Finance

Gordon B. Singer
Vice-President,
Accounting and Services

Arthur L. Wood
Vice-President, Heavy Oil

Alick S.G. Duguid
Treasurer

Thomas G. Bane
Assistant Secretary

Evelyn M. MacDonald
Assistant Treasurer

[1] Executive Committee
[2] Audit Committee
[3] Compensation Committee
[4] Pension Committee

Corporate information

Offices

Registered office*
3404 IBM Tower
P.O. Box 46
Toronto-Dominion Centre
Toronto, Ontario
M5K 1E5
(416)947-4000

Executive office
715-5th Avenue S.W.
Calgary, Alberta
T2P 2X7
(403)231-0111

Oil and gas division

Norcen Energy Resources Limited[1]

Cigas Products Ltd.[2,5]

Prairie Oil Royalties Company, Ltd.[3,6]

Norcen International Ltd.[2,5]
715-5th Avenue S.W.
Calgary, Alberta
T2P 2X7
(403)231-0111

Mineral resources division

Labrador Mining and Exploration Company Limited[4,5]
P.O. Box 46
Toronto, Ontario
M5K 1E5

Coleman Collieries Limited[2,6]
715-5th Avenue S.W.
Calgary, Alberta
T2P 2X7
(403)231-0111

Annual meeting
The annual meeting of shareholders will be held in the Calgary Convention Centre, 120-9th Avenue South East, Calgary, Alberta, on Friday, April 18, 1986, at 10:00 a.m. local time. Shareholders are encouraged to attend the meeting, but those unable to do so are asked to sign and return the form of proxy mailed with this report.

*Shareholders will be asked to approve a Special Resolution authorizing a change in the registered office to Calgary at the annual meeting.

Transfer agents and registrars

Ordinary shares
National Trust Company, Toronto, Calgary, Montreal, Regina, Winnipeg and Vancouver

Morgan Guaranty Trust Company of New York, New York

Preference shares
National Trust Company, Toronto, Calgary, Montreal, Regina, Winnipeg and Vancouver

Stock exchange listings and symbols

Toronto and Montreal stock exchanges
Voting Ordinary Shares: NCN
Non-Voting Ordinary Shares: NCN.A
First Preference Shares, Series A: NCN.PR.A
First Preference Shares, Series B: NCN.PR.B
Junior Preference Shares, 1983: NCN.PR.C
Second Preference Shares,
Series A: NCN.PR.F

Luxembourg Stock Exchange
12¾% Unsecured Debentures, Series A

Trustees
10¼% & 11¼% Secured Notes due December 31, 1988
The Royal Trust Company, Toronto

11¼% Secured Debentures due August 15, 1996
National Trust Company, Toronto

12¾% Unsecured Debentures, Series A due August 15, 1993
Guaranty Trust Company of Canada, Toronto

13¼% Unsecured Debentures, Series B due December 19, 2003
Guaranty Trust Company of Canada, Toronto

13¼% Unsecured Debentures, Series C and 12½% Unsecured Debentures, Series D both due December 31, 1990
Guaranty Trust Company of Canada, Toronto

Auditors
Thorne Riddell
Chartered Accountants

10-K report
A copy of the Company's 10-K report filed with the United States Securities and Exchange Commission will be sent to any registered shareholder upon written request to the Company Secretary.

[1] Federal company
[2] Alberta company
[3] Saskatchewan company
[4] Newfoundland company
[5] 100 per cent owned
[6] 74 per cent owned

Distribution of voting ordinary shares
As at December 31, 1985

	Shareholders		Shares	
	Number	Per cent	Number	Per cent
			(thousands)	
Alberta	1,651	11.09	636	2.34
British Columbia	1,668	11.20	563	2.07
Manitoba	722	4.85	637	2.35
New Brunswick	126	0.85	21	0.08
Newfoundland	24	0.16	34	0.13
Northwest Territories	7	0.05	1	0.00
Nova Scotia	364	2.45	103	0.38
Ontario	5,374	36.09	20,964	77.25
Prince Edward Island	32	0.20	7	0.03
Quebec	1,302	8.74	3,666	13.50
Saskatchewan	333	2.24	54	0.20
Yukon	2	0.01	0	0.00
Total Canadian	11,605	77.93	26,686	98.33
U.S.A.	3,161	21.23	426	1.57
Other foreign	125	0.84	25	0.10
Total	14,891	100.00	27,137	100.00

Distribution of non-voting ordinary shares
As at December 31, 1985

	Shareholders		Shares	
	Number	Per cent	Number	Per cent
			(thousands)	
Alberta	1,640	11.23	833	3.86
British Columbia	1,617	11.07	430	1.99
Manitoba	710	4.86	970	4.49
New Brunswick	130	0.89	29	0.13
Newfoundland	23	0.16	32	0.14
Northwest Territories	6	0.04	1	0.01
Nova Scotia	345	2.36	109	0.51
Ontario	5,206	35.64	17,476	80.98
Prince Edward Island	32	0.22	6	0.03
Quebec	1,264	8.65	1,195	5.54
Saskatchewan	339	2.32	85	0.40
Yukon	2	0.01	0	0.00
Total Canadian	11,314	77.45	21,166	98.08
U.S.A.	3,172	21.71	389	1.80
Other foreign	122	0.84	25	0.12
Total	14,608	100.00	21,580	100.00

Design: Eskind Waddell
Photography: Daniel Wiener
Printing: Arthurs-Jones
Lithographing Ltd.
Printed in Canada